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citi handlowy

Capital Group of Bank Handlowy w Warszawie S.A.

Annual Report 2018

March 2019

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2018	2017	2018	2017
Interest and similar income	1,304,514	1,351,410	292,899	318,376
Fee and commission income	638,961	662,958	149,748	156,185
Profit before tax	828,668	707,080	194,208	166,579
Net profit	638,852	535,566	149,723	126,173
Total comprehensive income	730,458	740,643	171,192	174,487
Increase/decrease of net cash	6,960,393	(158,297)	1,631,253	(37,293)
Total assets	49,304,714	43,037,596	11,466,213	10,318,539
Amounts due to banks	1,402,233	1,568,376	326,101	376,028
Amounts due to customers	38,334,345	32,136,698	8,914,964	7,704,979
Shareholders' equity	7,056,750	6,938,883	1,641,105	1,663,642
Share capital	522,638	522,638	121,544	125,306
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	54.01	53.11	12.56	12.73
Total capital adequacy ratio (in %)	16.8	17.9	16.8	17.9
Earnings per share (PLN/EUR)	4.89	4.10	1.15	0.97
Diluted net earnings per share (PLN/EUR)	4.89	4.10	1.15	0.97
Declared or paid dividends per share (PLN/EUR)*	3.74	4.11	0.87	0.99

**The presented ratios are related to declared dividend from the appropriation of the 2018 profit and dividend paid in 2018 from the appropriation of the 2017 profit.*

***The following foreign exchange rates were applied to convert PLN into EUR: for the consolidated statement of financial position - NBP mid exchange rate as at 31 December 2018 - PLN 4.3000 as at 31 December 2017: PLN 4.1709); for the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement – the arithmetic mean of NBP end-of-month exchange rates in 2018 – PLN 4.2669 (in 2017: PLN 4.2447).*

TRANSLATION

The Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the Financial Year Ended 31 December 2018

March 2019

CONTENTS

Consolidated income statement

PLN'000 For the period	Note	2018	2017*
Interest income	4	1,249,769	1,276,762
Similar income	4	54,745	74,648
Interest expense and similar charges	4	(196,940)	(269,263)
Net interest income	4	**1,107,574**	**1,082,147**
Fee and commission income	5	638,961	664,602
Fee and commission expense	5	(89,013)	(83,941)
Net fee and commission income	5	**549,948**	**580,661**
Dividend income	6	**9,533**	**9,428**
Net income on trading financial instruments and revaluation	7	**364,204**	**346,275**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income[a]		**112,631**	**35,772**
Net gain/(loss) on equity and other instruments measured at fair value through income statement[b]		**6,522**	**3,377**
Net gain on hedge accounting	8	**3,682**	**10,261**
Other operating income	9	35,243	32,094
Other operating expenses	9	(29,342)	(31,538)
Net other operating income and expense	9	**5,901**	**556**
General administrative expenses	10	**(1,108,247)**	**(1,118,653)**
Depreciation expense	11	**(71,384)**	**(73,092)**
Profit/loss on sale of other assets	12	**(813)**	**10,929**
Net impairment on financial assets and provisions for contingent commitments[c]	13	**(63,511)**	**(103,189)**
Operating profit		**916,040**	**784,472**
Share in net profits/(losses) of entities valued at equity method		**(22)**	**242**
Tax on some financial institutions		**(87,350)**	**(77,634)**
Profit before tax		**828,668**	**707,080**
Income tax expense	14	**(189,816)**	**(171,514)**
Net profit		**638,852**	**535,566**
Including:			
Net profit attributable to the Bank's shareholders			535,566
Weighted average number of ordinary shares (in pcs)	15	130,659,600	130,659,600
Net earnings per share (PLN)	15	4.89	4.10
Diluted net earnings per share (PLN)	15	4.89	4.10

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

***a.** Corresponds to the 'Net gain on debt investment securities available-for-sale' in accordance with IAS 39.*
***b**. Corresponds to the 'Net gain on equity investment instruments available-for-sale' in accordance with IAS 39.*
***c**. Corresponds to the 'Net impairment due to financial assets and provisions for granted financial liabilities and guarantees' in accordance with IAS 39.*

Explanatory notes on pages 12-104 are an integral part of the annual consolidated financial statements.

Consolidated statement of comprehensive income

PLN'000	For the period Note	2018	2017*
Net profit		**638,852**	**535,566**
Other comprehensive income, that might be subsequrently reclassified to profit or loss:			
Change in value of financial assets measured at fair value through other comprehensive income[d]	16	94,286	205,725
Currency translation differences		162	(314)
Other comprehensive income, that cannot be subsequrently reclassified to profit or loss			
Net actuarial profits/(losses) on specific services program valuation	16	(2,842)	(334)
Other comprehensive income net of tax		**91,606**	**205,077**
Total comprehensive income		**730,458**	**740,643**
Including:			
Comprehensive income attributable to the Bank's shareholders		**730,458**	**740,643**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*
***d**. Corresponds to the 'Net value of available-for-sale financial assets' in accordance with IAS 39.*

Explanatory notes on pages 12-104 are an integral part of the annual consolidated financial statements.

Consolidated statement of financial position

PLN'000	As at Note	31.12.2018	31.12.2017*
ASSETS			
Cash and balances with the Central Bank	17	7,272,193	462,126
Amounts due from banks	18	1,333,977	836,774
Financial assets held-for-trading	19	2,237,076	2,179,925
Debt financial asstes measured at fair value through other comprehensive income[e]	20	14,241,363	17,439,439
Equity investments valued at equity method	21	10,399	10,664
Equity and other instruments measured at fair value through income statement[f]	22	48,768	26,500
Amounts due from customers	23	21,949,014	19,849,033
Tangible fixed assets	24	364,261	376,775
Intangible assets	25	1,418,794	1,352,413
Current income tax receivables		1,744	667
Deferred income tax asset	27	204,207	175,904
Other assets	28	222,918	325,448
Non-current assets held-for-sale	29	-	1,928
Total assets		**49,304,714**	**43,037,596**
LIABILITIES			
Amounts due to banks	30	1,402,233,	1,568,376
Financial liabilities held-for-trading	19	1,609,382,	1,353,215
Hedging derivatives		-	50,191
Amounts due to customers	31	38,334,345	32,136,698
Provisions	32	29,984	18,300
Current income tax liabilities		66,297	52,340
Other liabilities	33	805,723	919,593
Total liabilities		**42,247,964**	**36,098,713**
EQUITY			
Share capital	35	522,638	522,638
Supplementary capital	35	3,003,290	3,003,969
Revaluation reserve	35	84,372	(9,118)
Other reserves	35	2,883,838	2,895,598
Retained earnings		562,612	525,796
Total equity		**7,056,750**	**6,938,883**
Total liabilities and equity		**49,304,714**	**43,037,596**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*
***e.** Corresponds to the 'Debt securities available-for-sale' in accordance with IAS 39.*
***f.** Corresponds to the 'Equity investments available for sale' in accordance with IAS 39.*

Explanatory notes on pages 12-104 are an integral part of the annual consolidated financial statements.

Consolidated statement of changes in equity

PLN'000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2018	**522,638**	**3,003,969**	**(9,118)**	**2,895,598**	**525,796**	**-**	**6,938,883**
Impact of adopting IFRS 9**	-	-	(796)	-	(74,784)	-	(75,580)
Restated balance as at 1 January 2018	**522,638**	**3,003,969**	**(9,914)**	**2,895,598**	**451,012**	**-**	**6,863,303**
Total comprehensive income, including:	-	-	94,286	(2,680)	638,852	-	730,458
Net profit	-	-	-	-	638,852	-	638,852
Currency translation differences from the foreign operations' conversion	-	-	-	162	-	-	162
Net valuation of financial assets measured at fair value through other comprehensive income[g]			94,286	-	-	-	94,286
Net actuarial profits/(losses) on specific services program valuation	-	-	-	(2,842)	-	-	(2,842)
Dividends	-	-	-		(537,011)	-	(537,011)
Transfer to capital	-	(679)	-	(9,080)	9,759	-	-
As at 31 December 2018	**522,638**	**3,003,290**	**84,372**	**2,883,838**	**562,612**	**-**	**7,056,750**

PLN'000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2017	**522,638**	**3,003,082**	**(214,843)**	**2,885,044**	**594,529**	**-**	**6,790,450**
Total comprehensive income, including:	-	-	205,725	(648)	535,566	-	740,643
Net profit	-	-	-	-	535,566	-	535,566
Currency translation differences from the foreign operations' conversion	-	-	-	(314)	-	-	(314)
Net valuation of available-for-sale financial assets	-	-	205,725	-	-	-	205,725
Net actuarial profits/(losses) on specific services programvaluation	-	-	-	(334)	-	-	(334)
Dividends	-	(129)	-	-	(592,081)	-	(592,210)
Transfer to capital	-	1,016	-	11,202	(12,218)	-	-
Balance as at 30 June 2017*	**522,638**	**3,003,969**	**(9,118)**	**2,895,598**	**525,796**	**-**	**6,938,883**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

*** Impact of the accounting principles amendments resulting from implementation of IFRS 9 was shown in note 3.*

***g.** Corresponds to the 'Net valuation of available-for-sale financial assets' in accordance with IAS 39.*

Explanatory notes on pages 12-104 are an integral part of the annual consolidated financial statements.

Consolidated cash flow statement

PLN'000	2018	2017*
I. Net profit	**638,852**	**535,566**
II. Adjustments:	**5,963,842**	**(1,008,486)**
Current and deferred income tax recognized in income statement	189,816	171,514
Share in net profits/(losses) of entities valued at equity method	22	(242)
Depreciation expense	71,384	73,092
Net impairment due to financial assets value loss	72,966	99,673
Net provisions (recoveries)	(10,904)	3,167
Net interest income	(1,107,574)	(1,082,147)
Dividend income	(9,533)	(9,428)
Profit/loss on sale of fixed assets	823	(10,993)
Net unrealized exchange differences	(8,800)	7,844
Equity and other investment measured at fair value though the income statement	(6,522)	-
Other adjustments	3,004	4,191
Change in amounts due from banks	(348,629)	(204,204)
Change in amounts due from customers	(2,278,685)	(1,082,118)
Change in debt securities measured at fair value through other comprehensive income[h]	3,199,537	1,743,917
Change in equity and other instruments measured at fair value through income statement [i]	-	635
Change in financial assets held-for-trading	(58,011)	1,581,754
Change in derivative securities	-	12,244
Change in other assets	101,633	(32,787)
Change in amounts due to banks	(130,863)	(650,236)
Change in amounts due to customers	6,194,610	(1,797,799)
Change in liabilities held-for-trading	256,167	45,417
Change in amounts due to hedging derivatives	(50,191)	10,294
Change in other liabilities	(116,408)	107,726
Interest received	**1,439,811**	**1,499,283**
Interest paid	**(193,814)**	**(271,326)**
Income tax paid	**(208,116)**	**(132,508)**
III. Net cash flows from operating activities	**7,640,575**	**622,529**
B. Investing activities		
Inlows		
Disposal of tangible fixed assets	38	33,613
Disposal of fixed assets/liabilities held-for-sale	1,068	-
Received dividends	9,260	9,428
Other inflows connected with investing activities	-	50
Outflows		
Purchase of tangible fixed assets	(17,813)	(92,288)
Purchase of intangible assets	(109,313)	(38,967)
Net cash flows from investing activities	**(116,760)**	**(88,164)**
C. Financing activities		
Inflows		
Drawing of long-term loans from financial sector	-	31,292
Outflows		
Paid dividends	(537,011)	(592,213)
Repayment of long-term loans from financial sector	(35,936)	(119,268)
Net cash flows from financing activities	**(572,947)**	**(680,189)**
D. Exchange rates differences resulting from cash and cash equivalent calculation	**9,525**	**(12,473)**
E. Net increase/(decrease) in cash and cash equivalent	**6,960,393**	**(158,297)**
F. Cash and cash equivalent at the beginning of reporting period	**514,585**	**672,882**
G. Cash and cash equivalent at the end of reporting period (see note 45)	**7,474,978**	**514,585**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*
h.*Corresponds to the 'Change in debt securities available-for-sale' in accordance with IAS 39.*
i. *Corresponds to the'Change in equity investment available-for-sale' in accordance with IAS 39.*

Explanatory notes on pages 12-104 are an integral part of the annual consolidated financial statements.

Additional information including the description of adopted accounting principles and other explanatory information

1. General information about the Bank and the Capital Group ("the Group")

Bank Handlowy w Warszawie S.A. ("Bank" or "parent entity") has its registered office in Warsaw at Senatorska 16, 00-923 Warszawa. The Bank was founded on the basis of Notarial Deed of 13 April 1870 and is registered in the Register of Entrepreneurs in the National Court Register kept by the District Court for the Capital City of Warsaw, XII Commercial Department in Warsaw, under KRS number 0000001538.

The parent entity was given REGON number: 000013037 and tax identification number NIP: 526-030-02-91.

The parent entity and the entities of the Group were set up for an unspecified period of time.

The share capital of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common bearer shares with a nominal value of PLN 4.00 per share. The shares are quoted on the Warsaw Stock Exchange.

The Group is a member of Citigroup Inc. Citibank Overseas Investment Corporation with headquarters in New Castle,USA. Citibank Overseas Investments Corporation is a subsidiary of Citibank N.A with headquarters in New York, USA, and is the ultimate parent entity for the Bank.

The Bank is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients on domestic and foreign markets. Additionally, the Group operates in brokerage operations through its subsidiaries.

These annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. show the data for the Bank as the parent and its subsidiaries (jointly "Group").

The Group consists of the Bank and the following subsidiaries:

Subsidiaries	Registered office	% of share capital/votes at the General Meeting	
		31.12.2018	31.12.2017
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

Financial information on subsidiaries, 31.12.2018

Subsidiaries fully consolidated

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	97.47	22,154	248	21,906	294	(524)
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100	18,393	306	18,097	257	304
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100	364,086	265,309	98,777	49,021	1,250
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100	Entity under liquidation				

** direct share*

Other entities PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100	672	10,856	43	10,813	129	(22)

** direct share*

The explanation of indirect relationships:

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY - LEASING	Warsaw	Leasing	Subsidiary	2.53	414	22,154	248	21,906	294	(524)

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2019, which is the entity's balance sheet date.

Financial information on subsidiaries 31.12.2017

Subsidiaries fully consolidated

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Assets	Liabilities	Equity	Revenues	Profit/Loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	97.47	23,134	704	22,430	865	(678)
HANDLOWY INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary	100	18,298	429	17,869	432	61
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100	433,070	320,816	112,154	73,538	14,669
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100	Equity in liquidation				

** direct share*

Other entities

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100	914	11,118	41	11,077	446	242

** direct share*

The explanation of indirect relationships:

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

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY - LEASING	Warsaw	Leasing	Subsidiary	2.53	414	23,134	704	22,430	865	(678)

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the audited financial statements prepared as at 28 February 2018, which was the entity's balance sheet date.

The financial data of a subsidiary that is not fully consolidated are immaterial to the consolidated financial statements. As at 31 December 2018, the financial data amounted to 0.02% of the Group's assets (as at 31 December 2017: 0.03%) and 0.03% of the Group's net profit (as at 31 December 2017: 0.05%), excluding elimination of transactions within the Group.

2. Significant accounting policies

Declaration of conformity

The annual unconsolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("IFRS EU") and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2018, item 395), respective operating regulations and regulations relating to issuers of securities admitted or sought to be admitted to trading on the official stock exchange quotation market.

The annual consolidated financial statements have been approved by the Management Board of the Bank for publication on 22 March 2019. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

The annual standalone financial statements were approved by the Management Board of the Bank for publication on 22 March 2019. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

Basis of preparation

These annual financial statements of the Group have been prepared as at 31 December 2018 and the comparable financial data are presented as at 31 December 2017.

The consolidated financial statements are presented in PLN (presentation currency), rounded to the nearest thousand.

The financial statements have been prepared on the fair-value-basis for financial assets and financial liabilities measured at fair value through profit and loss including derivatives and capital investments (minority shareholdings) and financial assets measured at fair value through other comprehensive income. Other financial assets are presented at at cost decreased by depreciation/ amortization and impairment losses. Other financial liabilities are presented at amortized cost.

The preparation of consolidated annual financial statement of the Group in accordance with IFRS requires from the Management to estimate and adopt assumptions that affect the amounts reported in financial statement. The most important accounting policies, estimations and assesments applied in the preparation of this annual financial statement, were applied by the Group in all the presented years on a continuous basis, except for changes resulting from the implementation since 1 January 2018 of IFRS 9 'Financial instruments' and IFRS 15 'Consumer contract income, which impact is provided in later part of report.

Estimates and associated assumptions are made on the basis of available historical data and many other factors that have been considered as relevant in the presented period. These factors form the basis to make estimates of the balance-sheet value of assets and liabilities whose value cannot be estimated on the basis of other sources. Actual results could differ from those estimates.

Estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Standards and interpretations approved but not obligatory that may have an impact on financial statements of the Group:

- IFRS 16 'Leasing', endorsed by the Euro pean Union for application starting from 1 January 2019 r., will replace IAS 17.

  The new standard introduces amended comprehensive approach to lease contract identification and their recognition in financial statements of lessors and lessees. IFRS 16 introduces control model, which is a method of distinguishment of lease contracts from service agreements. The distinguishment focuses on assessment whether within the contract a specified asset controlled by customer can be identified.

  Standard introduces significant changes in lessee accounting - no longer will there be a separation of operating and finance lease. It is also necessary to recognize right of use asset and corresponding lease liability.

  Additional information about the impact of adoption is provided in later part of the note.
- IFRS 9 'Financial instrumets' amendment. It clarifies situations in which prepayment of receivable results in repayment of significantly lower amount than outstanding one; in cases when it is reasonable, it does not impact SPPI test – the amendment won't have a significant impact on the financial statement,
- IFRIC 23 'Uncertainty relating to the recognition of income taxes' specifying measurement of uncertainties resulting from solutions applied for use of IAS 12 „Income taxes" when it is not clear if they are appropriate from perspective of tax authorities. The Group does not expect the Interpretation to have a significant impact on the financial statements as there are no significant uncertainties related to the recognition of income tax
- amendments to IAS 28 'Investments in associates and joint ventures' regarding measurement of the long-term share in affiliate companies and joined ventures in accoradance with IFRS 9 'Financial instruments' - the amendment won't have a significant impact on the financial statement.

Other standard amendments awaiting endorsement by the European Union:

- IFRS 17 „Insurance" replacing IFRS 4 „Insurance contracts" and introducing comprehensive regulations for accounting of insurance contracts, in particular the measurement of relevant liabilities. Standard eliminates differences in accounting of insurance contracts depending on local jurisdictions, allowed by IFRS 4,
- standard amendments cycle 2015-2017 including: IFRS 3 'Business combinations' and IFRS 11 'Joint Arrangements' in respect of measurement of interest in case of taking control over joint arrangements, IAS 12 in respect of recognition of tax on dividends in profit and loss, IAS 23 'Borrowing costs' for borrowing costs treatment,
- IAS 19 'Employee Benefits' amendment stating that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- amendments in the conceptual framework implementing comprehensive financial reporting rules, including measurement and its grounds, presentation and disclosures, derecognition of assets and liabilities from the balance sheet and also updates and explanations of specific terms,
- IFRS 3 'Business combinations' amendment - introducing a clarification of the definition of a project that helps to distinguish between acquisitions as a group of assets or a project,
- IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' to clarify the definition of the term 'significant' and to align it with the definition used in the conceptual assumptions.

will not impact the financial statement significantly.

Standards applicable from 1 January 2018:

- IFRS 9 'Financial instruments'. Described further.
- IFRS 15 'Revenues from contracts with customers'. Described further.
- IFRIC 22 'Foreign currency transactions and advance consideration' specifying rules for currency exchange rate setting for recognition of nonmonetary assets and liabilities in case of advance payments received or paid before recognition of relevant assets, expense or income. No significant impact on the financial statement.
- Amendment to IAS 40 'Investment property' specifying classification of investment property. No significant impact on the financial statement.
- Standard amendments cycle 2014-2016 including: IFRS 1 'Presentation of financial statements' in respect to exemptions for first time adoption of IFRS. No significant impact on the financial statement.
- Amendments to IFRS 2 'Share-based payment' regarding classification and measurement of share based payment, in particular equity settled share based payment. No significant impact on the financial statement.
- Amendment to IFRS 4 'Insurance Contracts' that allows temporary exemption from IFRS 9 for entities that mainly originate contracts under IFRS 4, resulting in reduction of profit volatility. No impact on the financial statement.

IFRS 9 "Financial instruments"

Since 1 January 2018 Group has been using IFRS 9 „Financial instruments" adopted for use by European Union on 22 November 2016 (European Union Regulation no. 2016/2067/EU), which replaced IAS 39 "Financial instruments: Recognition and Measurement".

Classification and measurement of financial instruments

IFRS 9 introduces in this respect the following significant amendments from Group perspective:

- Standard introduces three financial instruments categories:

  - financial assets measured at amortized cost,

  - financial assets measured at fair value through other comprehensive income,

  - financial assets measured at fair value through profit and loss.

- Group classifies financial assets to specific categories on initial recognition considering 2 criteria:

  - **business model** for management of assets, which determines, whether cash flows will result from collecting contractual cash flows, selling financial assets or both

  - **features of contractual cash flows** for an asset, which is estimated by using SPPI test (solely payment of principal and interest), under which it is determined if contractual cash flows are solely payments of principal and interest on the principal amount. The test is passed if above-mentioned cash flows are consideration for the time value of money, credit risk, other basic lending risks (for example liquidity risk), costs (for example administration) associated with holding the financial asset for a particular period of time and profit margin.

If SPPI test is passed, and business model reflects contractual cash flow collection, Group classifies financial assets to financial assets measured at amortized cost.

If SPPI test is passed, and business model reflects contractual cash flow collection and sales, Group classifies financial assets to financial assets measured at fair value through other comprehensive income.

If SPPI test is passed, but business model is different than the above mentioned, or if SPPI test is failed (irrespective of business model) Group classifies financial assets to assets measured at fair value through profit and loss.

The Group identifies relevant and irrelevant modifications for contracts at amortized cost, which are explained in the later part of the note.

Business model

In respect to business model, based on current and planned management approach to financial asset portfolios in respect of method of cash flow collection from groups of assets, Group originates loans and other financing instruments so far classified as loan and receivables under IAS 39 in order to collect principal and interest. Loan sales are rare and concern deteriorated exposures. As a result, the Group did not change in the valuation of instruments in this portfolio as compared to IAS 39 and they are measured at amortized cost.

Debt instruments in held for trading portfolio are managed under business model of frequent sales and purchases with expectations to take advantage of short-term market fluctuations and profit making patterns. As a result Group measures such instruments at fair value through profit or loss similar to IAS 39 regulation.

Debt instruments available for sale under IAS 39 are managed under business model of contractual cash flows and sales, so according to IFRS 9 they are classified as assets measured at fair value through other comprehensive income.

Contractual cash flows features

Group analyzed thoroughly contractual stipulations and practices in respect of consideration formulas in order to conclude whether contractual cash flows are solely payments of principal and interest (SPPI test). In result, in specific cases using benchmark test (analysis of mismatch of interest rate type and its reset frequency), Group, substantially, has not identified financial assets that failed SPPI test. However, Group is in the possession of credit cards for which interest formula contains a multiplier. For credit cards interest rate is based on analysis of similar products and it reflects consideration for time value of money, credit risk related with unpaid principal within specified time period, and other basic lending risks, as well as profit margin. Rates used by Group with multiplier higher than 1 results from current and past level of maximum acceptable interest set by law. Considering the above, Group presents such exposures as measured at amortized cost. The Group changed contract documentation to establish documentation for current customers, internal maximum rate which applies and is used regardless of statutory rate and restrictive to the variability of contract cash flows in accordance with IFRS 9.

As a result of above analysis, the Group did not identify changes in the way of valuation of financial assets resulting from contractual cash flows features.

Equity and other investments measured at fair value though the profit and loss

According to IFRS 9 minority shareholdings shall be measured at fair value. IFRS 9 provides that further changes in fair value, after initial application, are recognized in profit and loss. However, it allows an irrevocable option to record such changes in OCI without recycling to profit and loss. If such option is elected, dividends are generally recorded in profit and loss. Group decided to record changes in fair value in profit and loss.

Hedge accounting

In hedge accounting IFRS 9 extends the scope of instruments than can be considered as hedged or hedging instruments. The condition of hedge accounting application is economic relation between hedging instrument and hedged item without obligation to measure hedge effectiveness retrospectively. IFRS 9 also allows temporary use of hedge accounting covered by IAS 39 „Financial instruments: recognition and measurement" and Group followed that approach.

Impairment

Expected credit loss impairments as per IFRS 9 are established with exposure classification into one of the 3 Stages:

- Stage 1: Credit exposures that have not had a significant increase in credit risk since initial recognition
  - For these assets, a 12-months ECLs are recognized (representing the portion of lifetime expected credit losses that result from default events that are possible within 12 months after the reporting date),
- Stage 2: Credit exposures that have experienced a significant increase in credit risk since initial recognition, but for which the exposure is not yet defaulted
  - For these assets, a lifetime ECLs are recognized,
- Stage 3: Credit exposures with credit loss that has already been suffered on the assets
  - For these assets, ECL is established as for impaired assets.

As a rule, all exposures extended to newly acquired clients (with the exception of POCI assets), are classified as exposures in Stage 1.

As part of customer risk analysis, identification of a significant increase in credit risk and assessment of premises and evidence of impairment are made, taking into account existing and future events, including macroeconomic environment.

Institutional Clients Group

ICG Clients are assessed individual based on the consideration of presumption that there is a significant increase in credit risk and/or presumptions of credit loss in order to assign relevant internal classification / classify to relevant Stage as per IFRS 9. Assessment of the presumptions that there is a significant increase in credit risk and/or presumptions of credit loss are conducted on continuous basis as per early warning system process and internal classification. Internal classification process is a multifactor and comprehensive credit risk analysis and is a supporting element of portfolio monitoring and corrective action plan management.

In order to assess if there has been an increase in credit risk Group periodically, as per internal classification process and ongoing monitoring process, analyses changes in risk of default by comparing the current assessment of default with the assessment of default in the initial recognition.

Generally, the amendment of customer classification is determinining factor of transfer among Stages. Classification of customer to category – Under supervision is treated as significant slowdown of risk from the moment of initial recognition.

The level of external classification	Classification to Stage
Normal	Stage 1
Normal (internal observation list)	Stage 1
Under supervision	Stage 2
Performing below standard	Stage 2
Non-performing below standard	Stage 3
Questionable	Stage 3
Executed	Stage 3

Assessment of change in risk of default for given credit exposure is conducted during internal classification process and monitoring process and include:

- Qualitative indicators - including Early Warning System (eg. registered dates and amounts of payments, data from the credit bureau, balance and loan utilization, client's financial data, results of trends analysis of the industry in which the client operates, results of customer's inspections including the company's loan needs or changes in the company's management).
- Quantitative information (including among others),
- Expected exposure life period,
- Occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, (assuming that those changes does not imply deterioration in future payment flows).

Assignment to stage 1 & 2 is based on the internal classification process, which takes into account, apart from the quantitative factor (PD / rating changes) wide range of qualitative factors - therefore no PD threshold has been set above which exposure is automatically classified into Stage 2.

Stage 1 and 2 impairment allowances for credit exposures and provisions for balance sheet credit exposures is determined monthly for each customer in order to calculate, maintain and report information on impairment and IFRS 9 provisions for ICG clients exposure. The algorithms used depend on the assignment of the client to the Stage in accordance with IFRS 9 and the method of managing the given Client (Clients managed on the basis of classification vs. clients managed on a days past due basis). If the Group has sufficient data to create homogeneous groups of exposure, it measures them in a group approach, in particular exposures managed on a past due basis are valued in accordance with the group approach.

Stage 3 exposures are assigned if one of the following objective evidence of impairment occurs:

- decrease in client's internal rating to the equivalent of S&P CCC-,
- delay in payment equal to 90 days or more,
- significant financial difficulties of the client,
- reduction of the client credit rating by an accepted by the Bank External Credit Assessment Institution;
- breach of contract conditions, e.g. delay in interest or principal payments;
- occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, granting permission for emergency restructuring of credit exposure, if it might result in decreasing financial requirements, reduction of financial liabilities by redeeming a significant part of the principal, interest or, where applicable, fees or deferring their repayment or payment,

- high likelihood of bankruptcy of the client or obtaining information about the opening of bankruptcy proceedings, appearance by the debtor for declaration of bankruptcy or for similar protection or putting the debtor in bankruptcy or granting him similar protection if it would allow him to avoid or delay repayment of credit obligations;
- request of the Group to initiate enforcement proceedings against the client;
- severe domestic or local economic conditions that may be related to the default of exposures;

Stage 3 losses in respect of impairment / loan exposure reserve are recognized and calculated on the basis of the current value of projected cash flows expected in the loan period. Losses are calculated based on individual cash flow forecasts resulting from, among others, repayment by the borrower or collateral enforcement. The projected cash flows concern repayments of both capital and interest.

For the purpose of ECL calculation, the Group takes into account the collaterals. Acceptable forms of collateral include primarily mortgages, inventories and receivables. If the value of collateral is not included in the ECL calculation methodology, the provision would increase by 20%.

Global Consumer Banking

In the case of retail exposures, the level of write-downs is set at the level of individual loan exposures and then aggregated to the level of product portfolios. The level of the provision related to credit risk reflects the expected amount of credit losses over a time horizon depending on the exposure reporting Stage. In the range covered by the impairment model, there are:

- Cash loans,
- Mortgage loans,
- Credit cards together with related products (EPP, LOP, ALOP) and
- Renewable credit lines.

The rules for classifying exposures to the Stages are based on the credit risk management processes existing at the Group, in particular, as a rule, on a cyclical risk analysis of the client. It includes quantitative criteria related to determining the probability of customer default (PD) within the credit products held and quality criteria. The 12-th months PD value is set at the customer level based on a set of statistical models. These are scoring models: demographic, behavioral and data from the Credit Information Bureau (BIK). These models work on the basis of the so-called integration logic, whose task is to provide the best 12-th months PD value forecast for a set of partial model values available for a given client. Such PD is then scaled, for the purpose of Stage 2 to residual PD Life Time based on assumed survival distribution.

In order to assess whether there was a significant increase in credit risk, the Group periodically:

- as part of the change of the default risk analysis process for a given credit exposure, compare the current assessment of default risk (actual residual PD) for the credit exposure with the default risk assessment made at the time of initial recognition (expected at that moment of time residual PD for the current age of loan). Assignment to the Stage is taken if the increase of residual PD for particular credit products in the horizon of life exposition of multiplier from 1.7x to 5.1x depending on the kind of product,
- in addition, assessment includes qualitative reasons based on the current length of the credit product overdue period (Days Past Due criterion), the soft restructuring activities carried out and the fact that information about the probability of default is not available.

In the case of installment exposures, this is the period to the contractual maturity date. For revolving exposures, the contractual maturity is not specified, in substitution the so-called behavioral maturity is calculated, resulting from the empirical estimation of the life of the credit product.

The Group regularly, at least one a year, carries out the analysis to verify how much provisions that were made reflect the actual losses incurred as a part of assessing the adequacy of the methodology used to determining impairment loss/ provisions.

First application of IFRS 9

Disclosures of the impact of the adoption of IFRS 9

The Group decided to use the IFRS 9 records, which enable dispensing with the obligation to transform comparative data for the previous periods in the case of changes resulting in classification, valuation and impairment. At the same time the Group made changes in financial statement in order to adjust financial data presentation to new categories implemented by IFRS 9. Differences in the balance sheet value of assets and financial liabilities resulting from IFRS 9 were included as the part of previous year profit and revaluation reserve in equity as at 1 January 2018.

The impact of IFRS 9 on classification and measurement of financial assets is given below as at 1.01.2018 (data in thousands PLN):

Consolidated financial statement's line as at 31.12.2017	Consolidated financial statement's line as at 01.01.2018	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39	IFRS 9 implementation impact	Carrying amount IFRS 9
Assets	**Assets**					
Amounts due from banks and customers	Amounts due from banks and customers	Amortised cost	Amortised cost	20,685,807	(87,360)	20,598,447
Equity investments available-for-sale	Equity and other investments measured at fair value through income statement	Purchase price less impairment	Fair value through profit and loss	26,500	16,064	42,564
Deferred income tax asset	Deferred income tax asset	-	-	175,904	31,295	207,199
Total assets				**20,888,211**	**(40,001)**	**20,848,210**

Consolidated financial statement's line as at 31.12.2017	Consolidated financial statement's line as at 01.01.2018	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39	IFRS 9 implementation impact	Carrying amount IFRS 9
Liabilities	**Liabilities**					
Provisions for granted contingent commitments	Provisions for granted contingent commitments	Amortised cost	Amortised cost	12,789	22,886	35,675
Current income tax liabilities	Current income tax liabilities	-	-	52,340	12,693	65,033
Total liabilities				**65,129**	**35,579**	**100,708**
Group's Capital				**6,938,883**	**(75,580)**	**6,863,303**

The total impact of adopting of IFRS 9 on the Group's capital is negative and amounts to PLN 75,580 thousand.

In connection with review of verification to the exposition classification for selected corporate customers to the appropriate stages of impairment. The Group estimated the impact of adopting IFRS 9 in comparison to the Consolidated Financial Report for 2017. As a result of amendment of the estimation, the Group's capital was minimized by PLN 13,989 thousand (including tax effect) in comparison to the Consolidated Financial Report for 2017.

The impact of application of IFRS 9 for the first time results mainly from:

- Change of impairment calculation for financial assets and contingent liabilities from the model of losses incurred prior to 1 January 2018 to the model of expected losses, described in detail above,
- Changes of classification and measurement of minority equity instruments, which according to IFRS 9 requirements were classified to measure them at fair value through financial result profit and loss. Before the IFRS 9 adoption, the Group classified minority shareholdings as Equity investment available-for-sale and measured them at cost decreased by impairment losses.

The total negative impact of the IFRS 9 standard calculated as of January 1 2018 on Tier 1 and TCR is negative 26 basis points.

The Group decided that for the needs of capital adequacy assessment, based on Article 1 paragraph 9 of the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending the Regulation (EU) 575/2013, it will not adopt the transition period in respect of IFRS 9 impact and it has chosen the one-off recognition of the impact of IFRS 9 implementation on own funds.

Additional disclosures related with initial application of IFRS 9

Disclosures of the impact of the adoption of IFRS 9 as at 1 January 2018 are given below.

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at the time of the first application of IFRS 9 are compared as follows:

PLN '000		Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39	Carrying amount IFRS 9
Consolidated financial statement's line as at 31.12.2017	Consolidated financial statement's line as at 01.01.2018				
Financial assets					
Cash and balances with the Central Bank	Cash and balances with the Central Bank	Amortised cost	Amortised cost	462,126	462,126

Amounts due from banks	Amounts due from banks	Amortised cost	Amortised cost	836,774	835,538
Financial assets held-for-trading	Financial assets held-for-trading	Fair value through profit and loss	Fair value through profit and loss (mandatory)	2,179,925	2,179,925
Debt securities available for sale	Debt financial assets measured at fair value through other comprehensive income	Fair value through other comprehensive income	Fair value through other comprehensive income	17,439,439	17,439,439
Equity investments	Equity instruments measured at fair value through income statement	Purchase price less impairment	Fair value through profit and loss	26,500	42,564
Amounts due from customers	Amounts due from customers	Amortised cost	Amortised cost	19,849,033	19,762,909
Other assets (financial)	Other assets (financial)	Amortised cost	Amortised cost	263,119	263,119
Financial liabilities					
Amounts due to banks	Amounts due to banks	Amortised cost	Amortised cost	1,568,376	1,568,376
Financial liabilities held-for-trading	Financial liabilities held-for-trading	Fair value through profit and loss	Fair value through profit and loss (mandatory)	1,353,215	1,353,215
Hedging derivatives	Hedging derivatives	Fair value through profit and loss	Fair value through profit and loss (mandatory)	50,191	50,191
Amounts due to customers	Amounts due to customers	Amortised cost	Amortised cost	32,136,698	32,136,698
Provisions for granted contingent commitments	Provisions for granted contingent commitments	Amortised cost	Amortised cost	12,789	35,675

Changes in presentation of income statement connected with the adoption of IFRS 9 are given below. Changes refer to selected income statement's lines and these are changes of nomenclature without impact on presented values.

PLN '000		**Amount – IAS 39**	**Amount – IAS 39**
Consolidated income statement's line for 2017	**Consolidated income statement's line for 2018**	**2017**	**2018**
Net gain on debt investment securities available-for-sale	Net gain on debt investment financial assets measured at fair value through other comprehensive income	35,772	112,631
Net gain on capital investment instruments available-for-sale	Net gain on equity and other investments measured at fair value through profit an loss	3,377	6,522
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	Net impairment on financial assets and provisions for contingent commitments	(103,189)	(63,511)

The following table presents the reconciliation of the carrying amounts of financial assets by category of measurement under IAS 39 with the carrying amounts of these items according to the category of their valuation under IFRS 9, on the date of the first application of IFRS 9:

PLN '000	**Measurement category IAS 39**	**Reclassifications**	**Measurements**	**Measurement category MSSF 9**
Financial assets				
Amortised cost				
Amounts due from banks				
Opening balance	836,774			
Measurement		-	(1,236)	
Closing balance				835,538
Amounts due from customers				
Opening balance	19,849,033			
Measurement		-	(86,124)	

Closing balance				19,762,909
Available-for-sale				
Debt securities				
Opening balance	17,439,439			
Reclassification to fair value through other comprehensive income		(17,439,439)	-	
Measurement		-	-	
Closing balance				-
Equity investments and others				
Opening balance	26,500			
Fair value through profit and loss		(26,500)	-	
Measurement		-	-	
Closing balance				-
Fair value through other comprehensive income				
Debt securities				
Opening balance	-			
Reclassification from available for sale		17,439,439	-	
Measurement		-	-	
Closing balance				17,439,439
Fair value through profit and loss				
Equity investments and others				
Opening balance	-			
Reclassification from available for sale		26,500	-	
Measurement		-	16,064	
Closing balance				42,564
Financial liabilities				
Provisions for granted contingent commitments				
Opening balance	12,789			
Measurement		-	22,886	
Closing balance				35,675

'Measurement' in the above table relates to the increase of allowances connected with adopting model of expected losses, in accordance with IFRS 9, for amounts due to bank and customers in total amount of PLN 87,360 thousand and for contingent commitments in amount of PLN 22,886 thousand.

Furthermore, for equity investment in the line of measurement, the Group recognized the gap among book value in accordance with IAS 39 and value in accoradance with IFRS 9 using valuation at fair value.

Moreover, the Group accomplished reclassification of financial assets to the new categories required by IFRS 9. In particular, reclassification relates to portfolio of debt securites available-for-sale to the category measured at fair value through the other comprehensive income and equity investment classified previously as available-for-sale to the category measured at fair value through the income statement.

In accordance with Transition Resource Group for Impairment of Financial Instruments the value of receivables in Stage 3 shall be presented increased by accrued contract interest in total amount of PLN 433,123 thousand. The result of this presentation of receivables is also the growth of loan provisions by the same amount. This change had no influence on total net value of receivables in Stage 3 and also on own funds as at the date of transition to IFRS 9, 1 January 2018.

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 and provisions calculated in accordance with IAS 37 to the opening balance of expected credit losses in accordance with IFRS 9:

PLN '000	Impairment allowance IAS39/IAS 37	Reclassifications	Measurements	Impairment allowance IFRS 9
Measurement category				
Loans and advances (IAS 39)/ Amortised cost (IFRS 9)				
Amounts due from banks	1,111		1,236	2,347
Amounts due from customers	587,783	(5,178)*	86,124	668,729
	588,894	**(5,178)**	**87,360**	**671,076**
Financial assets avaible for sale (IAS 39)/ Financial assets at fair value through profit and loss (IFRS 9)				
Other equity investments	4,250	(4,250)	-	-
	4,250	**(4,250)**	**-**	**-**
Financial and guarantees liabilities granted				
Letters of credit	179	-	100	279
Guarantees granted	2,869	-	3,100	5,969
Credit lines granted	9,741	-	19,686	29,427
	12,789	**-**	**22,886**	**35,675**
Provisions (IAS 37)	**5,511**	-	-	**5,511**
Total	**611,444**	**(9,428)**	**110,246**	**712,262**

** The item 'Reclassifications' is connected with the definition change of gross carrying amount to IFRS 9 and includes the difference between impairment allowance established for accrued interest from receivables with recognized impairment to the moment of impairment declaration IAS 39 and the value of allowance for these interest IFRS 9. After adoption of IFRS 9, these interest provide the gross carrying amount with the increase of allowance by the same amount.*

IFRS 15 „Revenue from contracts with customers"

On 29 October 2016 IFRS 15 "Revenue from contracts with customers" was endorsed for use in the European Union effective 1 January 2018, replacing IAS 18 "Revenue".

The standard introduces the obligation to use the sequence indicated below in the process of recognizing revenue from contracts with customers, specifically, some commissions recognized by the Group:

1. Identifying the contract with a customer- Group shall account for a contract with a customer that is within the scope of IFRS 15 only when all of the following criteria are met:

   a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
   b) the Group can identify each party's rights regarding the goods or services to be transferred;
   c) the Group can identify the payment terms for the goods or services to be transferred;
   d) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
   e) it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

2. Identifying performance obligations

   The Group shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

   a) good or service (or a bundle of goods or services) that is distinct; or
   b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer

3. Determining the transaction price

   The Group shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. When determining the transaction price, the Group shall consider the effects of variable consideration, time value of money in case of the existence of a significant financing component in the contract, non-cash consideration, consideration payable to a customer as well as estimates.

4. Allocating the transaction price to performance obligations to identify amounts to be recognized as revenue

   The Group allocates the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.
   The stand-alone selling price is the price at which Group would sell a promised good or service separately to a customer.
   If a stand-alone selling price is not directly observable, Group shall estimate the stand-alone selling price at an amount that would result in the allocation of the transaction price based on adjusted market assessment approach, expected cost plus margin approach and residual approach.

5. Revenue recognition

   The Group recognises revenue when (or as) it satisfies the performance obligation by transferring a promised good or service to a customer. Transfer of a promised good or service is when the customer obtains control of the good or service.

   The basic criteria for transferring control of a good or service are:
   a) Group's present right to payment for the asset or service,
   b) The customer has legal title to the asset,
   c) The Group has transferred physical possession of the asset or performed the service,
   d) The customer has the significant risks and rewards of ownership of the asset or service,
   e) The customer has accepted the asset or the service.

   Revenue is recognised over time if one of the following criteria is met:

   a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the Group performs;

   b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

   c) the Group's performance does not create an asset with an alternative use to it and Group has an enforceable right to payment for performance completed to date.

   In other circumstances, revenue is recognized immediately.

   The Group shall recognise an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

   a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
   b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
   c) the Group expects to recover the costs.

Costs recognized as an asset are recognized in the profit and loss according to the manner in which revenue is recognized as performance obligation is satisfied by the Group.

In the process of implementation of the standard, the Group has not identified differences in the approach to revenue recognition in relation to IAS 18 effective until the end of 2017. Most of the Group's revenues are recognized using the effective interest rate method, in accordance with the provisions of IFRS 9. In case of the Group, IFRS 15 applies to part of commissions not related to financial instruments. The revenue recognition method for these commissions complies with the regulations of the new standard and in case of one-off services, revenue is recognized at the time the service is performed, and for services provided over time revenue is recognized using the straight-line method. The Group has not identified significant costs necessary to obtain contracts that would have to be amortized over time.

The impact of adoption IFRS 15 'Revenue from Contracts with Customers' was irrelevant.

IFRS 16 „Leases"

On 1 January 2019 the Group adopted IFRS 16 "Leases" (hereafter referred to as "IFRS 16").

The new standard relates to all leasing contracts excluding certain items that are in scope of other IFRS. IFRS 16 contains a holistic approach to leases identification, recognition and measurement in the financial statements of lessees and lessors. Particularly impactful changes were introduced to accounting for leases by lessees by assuming a single accounting model and abandoning a distinction between operating and finance leases.

In order to identify a lease contract, IFRS 16 uses a concept of control over an asset. The standard distinguishes lease contracts from service agreements depending on whether there is a specified asset that is controlled by a lessee. According to IFRS 16 a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At inception of each lease contract IFRS 16 requires a lessee to recognize a lease liability (resulting from an obligation to make lease payments) and an asset - right of use of a specified asset over a lease term. A lessee may elect not to apply the requirement to:
- short-term leases that at the commencement date, have a lease term of 12 months or less; and
- leases for which the underlying asset is of low value such as office equipment.

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The payments include, *inter alia*:
- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate.

The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, lessee's incremental borrowing rate is used. Incremental borrowing rates are determined by the Group taking into account risk-free rate, credit risk spread of the Group and they reflect lease term as well as a currency of a lease contract.

At the commencement date right-of-use assets are measured at cost, comprising:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The Group recognizes a lease contract as a right-of-use asset and corresponding lease liability at a date when underlying asset available for use by a lessee. Interest expense resulting from a lease liability is recognized in profit and loss during lease in the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. A right-of-use asset is amortized on linear basis until earlier of the end of the useful life of the right-of-use asset or the end of the lease term.
In accordance with the transitional provisions included in IFRS 16, when adopting the new standard, the Group as a lessee opted to follow a modified retrospective approach based on which comparative information is not restated and cumulative effect is recognized as an adjustment to the opening balance of retained earnings (however no retained earnings adjustment was recognized because right-of-use asset balance was equal to lease liability).

Impact on statement of financial position

As at initial application of IFRS 16, i.e. 1 January 2019, the Group recognized new asset items, mainly related to right-of-use of real estate linked to the Group's branches as well as perpetual usufruct of land. IFRS initial application resulted in an increase in Group's assets and liabilities by PLN 146,0 million (equivalent of 0.3% of Group's total assets as at 31 December 2018).

Impact on statement of financial performance

IFRS 16 changes the accounting of leases in profit and loss accounts by replacing rental costs by depreciation and interest expense and the timing of cost recognition – under IFRS 16 cost recognition will be faster due to effective interest rate method applied to lease liabilities which was not used with respect to operating leases under principles in force before 31 December 2018. The Group estimates that the impact is not significant and will be reversed as leases mature.

Impact on capital adequacy

Due to the inclusion of lease contracts in the Group's balance sheet as at 1 January 2019, the total amount of risk exposures increased, and thus the Group's total capital ratio decreased by 9 basis points.

Basis of consolidation

Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group has power over an entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Any identifiable purchased assets and assumed liabilities, including contingent liabilities, acquired in a business combination, are measured initially at fair value at the acquisition date, irrespective of the extent of any minority interest. Any excess of the cost of acquisition over the fair value of the Group's interest in the acquired identifiable net assets is recognized as goodwill. If the cost of acquisition is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement.

Intra-group transactions and balances are eliminated on consolidation. Material unrealized gains and losses on transactions between Group companies are also eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency in all material aspects with the accounting policies adopted by the Group.

Subsidiaries which are not fully consolidated due to the immateriality of their financial statements in the consolidated financial statements of the Group, are presented in accordance with the equity method.

Foreign currency

The values reported in annual consolidated financial statement are presented in PLN, which is functional currency and the currency of presentation of the Group.

The statement of financial position and contingent liabilities received and granted items denominated in foreign currencies are converted to PLN equivalents using the average exchange rate of the currency determined by the Governor of the National Bank of Poland ("NBP") prevailing at the date of preparation of the statement of financial position.

Foreign currency transactions are converted at initial recognition to the functional currency (PLN) using the exchange rates prevailing at the date of transactions.

Foreign exchange profits and losses resulting from revaluation of the statement of financial position items denominated in foreign currencies and settlement of transactions in foreign currencies are included in net profit on foreign exchange, within the trade financial instruments and revaluation income.

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

PLN		31 December 2018	31 December 2017
1	USD	3.7597	3.4813
1	CHF	3.8166	3.5672
1	EUR	4.3000	4.1709

Financial assets and liabilities

Classification

After implementation of IFRS 9 Group classifies financial instruments to the following categories:

- financial assets measured at fair value through profit and loss,
- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income,
- financial liabilities measured at fair value through profit and loss,
- other financial liabilities.

Financial assets measured at fair value through profit and loss

The category comprises:

1) financial assets, that were classified neither as measured at amortized cost nor as measured at fair value through other comprehensive income
2) financial assets classified at initial recognition as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases
3) minority shareholdings

An set are included in this category especially if they are held for trading (held for trading model) that is: they were purchased with the primary objective of selling or repurchasing to generate short-term profits, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of generating short-term profits, they are derivatives.

Derivative instruments, excluding hedging instruments, and selected debt securities are classified as held-for-trading and presented in the consolidated financial statement as "Financial assets held for trading"

Minority shareholdings are presented in the consolidated financial statement as "Equity and other investments measured at fair value through income statement".

Financial assets measured at amortized cost (loans and receivables)

A financial asset is measured at amortized cost if both conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category comprises, in the first instance, amounts due in respect of loans, purchased receivables and debt securities that are not quoted on the active market and interbank deposits and also reverse repo transactions.

The Group in accordance with Transition Resource Group for Impairment of Financial Instruments presented gross carrying amount of receivables in Stage 3 in the amount increased by accrued contract interest in note 23 'Amounts due from customers'. The value of credit provisions is increased by the same amount.

In the consolidated financial statement such assets are presented in „Amounts due from banks" and "Amounts due from customers".

Purchased or originated credit impaired assets (POCI)

Purchased or originated credit impaired assets on initial recognition may be identified when Group has originated or purchased exposures already impaired at the moment of initial recognition or Group has modified (significant modification) an impaired exposure and derecognition criterion has been met. POCI assets are recognized at fair value at initial recognition and subsequently at amortized cost using effective interest rate adjusted by expected credit losses. Expected credit losses are considered and recognized as lifetime of those instruments.

Financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Group classifies in this category selected debt instruments and presents them in the consolidated financial statement as "Debt investment financial assets measured at fair value through other comprehensive income"

Financial liabilities measured at fair value through profit and loss

The category comprises derivative liabilities which are not hedging instruments and it comprises short sale liabilities presented as 'Financial assets held-for trading'.

Other financial liabilities

Other financial liabilities are financial liabilities which are not classified as financial liabilities at fair value through profit or loss. Customers' deposits are primarily classified in this category and commercial commitments and also liabilities from repo transactions presented as 'Amounts due to banks' and 'Amounts due to customers'.

Cash

Cash is cash in hand, nostro current account in Central Bank and receivables on current balances in banks described in detail in note 45 'Additional information to the statement of cash flows'.

Recognition, derecognition and insignificant modifications

Transactions of purchase or sale of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are recognized in the Group's statement of financial position and derecognized at transaction settlement date, i.e., the date on which the Group will receive or transfer the ownership right to assets. The rights and liabilities from a concluded transaction are measured at fair value from the transaction conclusion day to the transaction settlement day.

Loans and receivables are recognized at the time of mobilization of funds for the borrower.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when and only when they are extinguished, i.e., the obligation described in the agreement had been discharged, cancelled or expired.

The Group applies the following criteria, which result in assets derecognition from the balance sheet and obligation to recognize them according to the classification rules:

- contract change that causes change of SPPI test assessment,
- debtor's change,
- currency conversion,
- granting additional loan amount of at least 10% of outstanding loan principal.

At the moment of derecognition, the undepreciated part of the commission is recognized in total in interest income. The newly charged commission is settled in time using the effective interest rate method.

If there is a change in cash flows of financial assets containing the repayment schedule measured at amortized cost that results from annex to the contract, the Group recalculates gross balance sheet value of financial asset and recognizes modification profit or loss in profit or loss. The gross balance sheet value of that financial asset is calculated as present value of renegotiated or modified contract cash flows, discounted at original effective interest rate of financial assets (or credit risk adjusted effective interest rate for credit risk- for originated or purchased financial assets credit-impaired at initial recognition). All origination costs and fees adjust the balance sheet value of modified asset and are amortized until the maturity date of modified financial asset.

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

Valuation

When financial assets or financial liabilities are recognized initially, they are measured at fair value plus, in the case of assets and liabilities not measured at fair value through profit or loss, significant transactional costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

After initial recognition, the Group measures financial assets including derivatives that are assets at fair value without deducting transactional costs which it may incur in connection with the sale or disposal of assets except for loans and receivables which are measured at amortized cost using the effective interest rate method,

After initial recognition, financial liabilities, exluding financial liabilities that are measured at fair value through profit or loss, are measured at amortized cost using the effective interest rate method. Financial liabilities that are measured at fair value through profit or loss, including derivatives that are liabilities, are measured at fair value.

Profits or losses resulting from the change of fair value of financial assets or financial liabilities, which are not the part of the hedging relationship, are recognized in the following way:

- in the case of financial assets or financial liabilities measured at fair value through profit or loss, they are shown in revenues or expenses;
- profits or losses resulting from measurement of financial assets classified as measured at fair value through other comprehensive income are recognized in other comprehensive income. Impairment of financial assets measured at fair value through other comprehensive income and exchange rate differences on monetary assets and liabilities are recognized in the income statement. When financial assets are excluded from the statement of financial position, accumulated profits or losses which were previously included in equity are recognized through profit or loss.

Interest accrued using the effective interest rate method is recognized through profit or loss.

Dividends equity investments are recognized in profit and loss when the entity's right to receive payment is established. There is a possibility that the entity will get benefits connected with dividend and the dividend will be set plausibly.

Finance lease receivables

The Group enters into lease agreements under which the Group transfers to the lessee, in return for a fee or benefits, the right to use an asset for an agreed period.

Assets under leases where the Group transfers substantially all the risk and rewards incidental to ownership of the leased assets are not included in the consolidated statement of financial position. A receivable representing an amount equal to the net investment in the finance lease is recognized.

The recognition of interest income under finance lease is based on an effective interest rate method reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Shares in other entities measured at fair value through income statement

Shares in entities other than subordinated entities are classified as financial assets measured at fair value through profit and loss.

Derivatives

Fair value of derivatives financial instruments is determined by reference to their prices on the active market, including prices in recent market transactions, or using valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Derivatives which were not designated as hedging instruments according to hedge accounting rules, are classified as assets or liabilities held-for-sale and measured at fair value.

Embedded derivatives in host contracts treated as financial liabilities are accounted for as separate derivatives if the risks and economic characteristics of the embedded derivative are not closely related to the risks and characteristics of the host contract and the host contract is not measured at fair value through profit or loss.

Hedge accounting

The Group applies fair value hedge and used the option of IFRS 9 to continue the hedge accounting standard in acoorance with IAS 39 instead of regulations pointed in IFRS 9.

A fair value hedge is a hedge against the impact of changes in an asset, liability or unrecognized firm commitment, or a separated part of such an asset or liability, to which a particular risk may be attributable and which may affect profit or loss.

Fair value hedge is recognized in the following way: profits or losses resulting from valuation of fair value of hedging instrument (hedging derivatives) are recognized in the income statement. Changes in valuation to the fair value of financial instruments designated as hedging positions are recognized – in a part resulting from hedged risk - in the income statement. In case of other parts, the changes in carrying amount are booked in accordance with the general rules for a given class of financial instruments.

Offsetting financial instruments

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

Cash pooling

The Group offers its clients cash management services which consolidate balances within the structure of related accounts (“cash pooling”). Such transactions net the positive and negative balances of participants’ current accounts on a designated account of the entity which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed. Cash pooling transactions are presented on a net basis only if they meet the requirements of IFRS 9 regarding derecognition of financial assets and liabilities from the statement of financial position. Accounts receivable presented on a gross basis are presented as Amounts due from customers and accounts payable as ‘Amounts due to customers’.

Repurchase and resale agreements, repo / reverse repo transactions

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so called sell-buy-back and buy-sell-back respectively, as well as repo and reverse repo transactions in securities. Securities sold under repurchase agreements continue to be shown as the Group’s assets and the Group discloses liabilities resulting from the repurchase clause. In the case of securities purchased under agreements to resell, securities are presented in the statement of financial position as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method. In the case of sale of the securities previously purchased in the reverse repo transaction, the Group recognizes liabilities due to the short sale of securities. These liabilities are evaluated fair value.

Impairment of assets measured at amortized cost

On a commitment basis, the Group classifies assets measured at amortized cost into the portfolio of assets that are individually significant and the portfolio of assets that are not individually significant (portfolio basis).

For each of the above categories of assets, the Group makes impairments for expected credit losses, according to the developed internal rules and methodologies for theirs calculation. They are aggregated for each of the three stages:

- Stage 1: Credit exposures that have not had a significant increase in credit risk since initial recognition

- Stage 2: Credit exposures that have experienced a significant increase in credit risk since initial recognition
- Stage 3: Credit exposures with credit loss that has already been suffered on the assets

On the balance sheet date, the Group assesses if there is objective evidence of impairment of one financial asset or a group of financial assets.

A financial asset or a group of financial assets were impaired and the impairment loss was incurred only when there is an objective evidence of impairment resulting from one or more events taking place after the initial recognition of an asset (the loss event) and the loss event (or events) influences the future expected cash flows resulting from a financial asset or a group of financial assets which may be reliably estimated.

Objective evidence of impairment of a financial asset or a group of assets includes information obtained by the Group concerning events, which are provided in the later part of the note 49 'Risk management'.

Non-recoverable loans (i.e., loans for which the Group does not expect any future cash flows and that may be treated as tax deductible costs under separate tax regulations or that were unconditionally written off under an agreement with the customer) are, on the basis of Group's decision, written down against impairment allowances. If a written-down amount is subsequently recovered, the amount of income is presented in "Net impairment on financial assets and provisions for contingent commitments".

Forbearance

Forborne exposures are exposures for which concessions were granted due to economic or legal reasons (for financial conditions), resulting from financial difficulties of Obligor, that the lender would not otherwise extend.
The Client's restructuring and its exposure does not always imply a loss of value (e.g. in the case of obtaining appropriate compensations). Impaired exposures are restructured exposures with forced restructuring.

In case the Group grants a concession to the debtor, if it does not change significantly the terms and expected cash flows of the financial asset, the expected cash flows from the financial asset subject to the concession are included in the measurement of the asset using the prior effective interest rate for the instrument.

If the concession granted significantly changes the important terms or expected cash flows, the financial asset is derecognized and the new one is recognized at fair value on the day of the initial recognition.

Impairment allowances for expected credit losses

In order to determine the Stage of reported expected credit loss, exposure should be assessed if there was a credit loss that has already been suffered on the assets (Stage 3) or not (Stages 1 and 2). Choice between Stage 1 and 2 is determined by a significant increase in credit risk since initial recognition.

The impairment allowances for expected credit losses are calculated using statistical parameters for the groups of assets combined in portfolios having similar credit risk characteristics. In the financial statements, the Group corrects credit exposure with the value of expected credit losses impairment allowances.

Impairment allowances for individually significant assets

The level of impairment allowances for receivables that are deemed as individually significant and for which evidence of impairment was detected is calculated as the difference between the carrying value of an asset and the present value of the future cash flows from expected repayments by the borrower, from cash settlement of collateral or the sale of receivables. The future cash flows are discounted to the present value with the effective interest rate for a given instrument.

If the present value of the estimated cash flows increasesafter an event occurring after impairment was identified, the write-off that was previously made will be reversed as appropriate through profit or loss.

Impairment allowances for individually not significant assets

The level of impairment allowances for receivables that are deemed as individually not significant, for which evidence of impairment was detected, is calculated on the basis of a portfolio assessment which is based on the history of losses incurred on assets with similar risk characteristics.

Impairment allowances for amounts due from banks and customers, allowances for impairment of securities and other assets adjust the value of particular asset categories. Provisions for contingent liabialities are shown in the liabilities section "Provisions".

Expected credit losses for financial assets measured at fair value through other comprehensive income

For financial assets measured at fair value through other comprehensive income, the increase or decrease in expected credit losses is recognized in the profit and loss account under the item 'Net impairment on financial assets and provisions for contingent commitments'.

In order to calculate the impairment loss for expected credit losses for assets measured at fair value through other comprehensive income, the Group uses internal methodology to define default probability (PD parameter), loss value at default (LGD parameter) and exposure value at the time of default (EAD parameter).

Impairment of assets other than financial assets

The carrying amounts of the Group's assets, excluding deferred tax assets, are reviewed at each balance sheet date to determine whether there is any evidence of impairment. If so, the asset's recoverable amount is estimated.

Revaluation impairment allowances are recognized if the book value of an asset or of cash- generating unit exceeds the recoverable amount. Revaluation impairment allowances are recognized in profit or loss.

In the case of a cash-generating unit, revaluation impairment allowances first reduce the goodwill allocated to such cash-generating units (group of units) and then proportionally reduce the carrying value of other assets in the unit (group of units).

The recoverable amount in the case of assets other than financial assets is higher fair value less selling costs and value in use. For value in use calculation, the estimation of future cash flows is discounted to their present value using the discount rate before taxation, which represents present market expectations regarding money value and specific risk regarding an asset. For assets that are not generating independent cash flows, the recoverable amount is estimated for the cash-generating unit, the asset owner.

Reversal of revaluation write-offs

Revaluation write-offs for impairment, excluding goodwill, are reversed if the estimations for the recoverable amount have changed.

The revaluation write-off for impairment for other assets can be reversed only to the level by which the book value of the asset do not exceed the depreciation decreased book value that would be estimated if the impairment write-off was not recognized.

Goodwill

In the consolidated financial statements of the Group, goodwill represents the difference between the cost of the acquisition and the fair value of the Group's interest in identifiable assets, liabilities and contingent liabilities acquired at the business combination date. Goodwill is included in intangible assets. Goodwill is stated at cost minus any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment independently of objective evidence of impairment. The revaluation write-off for impairment for goodwill can not be reversed.

Goodwill resulting from takeovers that occurred before 31 March 2004, i.e., the effective date of IFRS 3 ("Business Combinations"), was calculated in accordance with the previous accounting policies, as the difference between the cost of acquisition of an entity and the net asset value of the acquired entity at the acquisition date.

Tangible fixed and intangible assets (excluding goodwill)

Tangible fixed and intangible assets are stated at historical cost minus accumulated depreciation or amortization and impairment losses. The historical cost of an item of property and equipment and intangibles includes any directly attributable costs of purchasing and bringing the asset into use.

Subsequent expenditure relating to an item of property and equipment or intangibles is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the Group and the cost of the asset can be measured reliably. Any other expenditure, e.g., repairs and maintenance, is recognized as an expense when incurred.

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2017.

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

Other intangible fixed assets	20.0%
Leasehold improvements - compliant with lease agreement period	

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

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

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

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

Non-current assets held-for-sale

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

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

Employee benefits

Short-term employee benefits

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

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

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

Share-based payments

Within the equity compensation plans, the selected employees get under stock award programs based on shares of Citigroup common stock in the form of deferred stock (CAP) and under stock award programs based on phantom shares of Bank Handlowy w Warszawie S.A. In 2018 there were no employees awarded as part of the CAP program.

In accordance with IFRS 2 "Share-based payment", all the programs functioning in the Group are deemed to be cash-settled programs. A provision is created for future payments and is shown in the "consolidated statement on financial position" and "General administrative expenses" in the income statement. The costs of the program are determined on the basis of the Bank's shares price or Citigroup shares price. According to IFRS, the fair value is measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value deferred shares at the reporting date times the part of the rights that were deemed acquired in that period.

Long-term employee benefits

Under its compensation scheme, the Group guarantees its employees retirement and pension, allowances, constituting defined benefit plans. Their amount depends on years worked in the Bank, falling directly before gaining rights to payment. For the future payments of retirement and pension allowances there is a reserve made, shown in "Liabilities" in "Other liabilities" and in "Activities costs and general and administrative expenses" of profit and loss account in part resulting from costs of current employment and time. Part of the provision resulting from a change of actuarial assumptions (economics and demographic) taken to valuation is shown in other total income.

A component of variable remuneration granted to the Management Board and people, whose professional operating has a significant impact on the Banks risk profile, is also the deferred cash prize described in detail in Note 48 "Employee benefits".

Defined contribution plans

The Group enables its employees to join a pension plan, which is described in detail in Note 48. The Group pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions; hence, this is a defined contribution plan in accordance with IAS 19 ("Employee Benefits"). Contributions are recognized as an expense in the related period.

Provisions

A provision is recognized in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and also if it is probable that the discharge of this obligation will result in an outflow of economic benefits, and the provision amount can be reliably estimated.

Restructuring provision

A restructuring provision is recorded when the following conditions have been met: (i) the Group has a detailed and formalized restructuring plan; (ii) the restructuring has already begun or has been publicly announced; (iii) the provision amount can be reliably estimated. The restructuring provision does not include future operating expenses.

Accruals and prepayments

The Group records accruals and prepayments of expenses primarily in relation to the Group's overhead expenses in reporting periods to which they relate. Accruals and prepayments are presented as 'Other liabilities' in the statement of financial position.

Equity

Equity is stated at nominal value, with the exception of the equity from revaluation reserve of available-for-sale financial assets that is stated after the effect of deferred income tax.

Dividends are recognized as liabilities on the date at which the General Meeting of the Bank has approved the appropriation of earnings.

Calculating net income

Net income is calculated in compliance with the accrual accounting and the matching concept. Net income reflects all income and relevant expenses set off against income within a particular reporting period, irrespective of the day on which these are received or paid.

Interest income and interest expenses and similar income

For all financial instruments, interest income and interest expense is recognized through the profit or loss account using the effective interest rate method.

The effective interest rate method calculates the amortized cost of a financial asset or a financial liability and allocates interest income or interest expense to appropriate periods. The effective interest rate is a rate that discounts the estimated futures inflows or payments in the expected period until the maturity of the financial instrument to the carrying value of a financial asset or a financial liability. When calculating the effective interest rate, the Group takes into account all the terms and conditions of a financial instrument agreement (e.g., prepayments, call options, etc.), but excludes potential future losses in connection with non-recoverable loans. The calculation covers all the commissions payable to and receivable from the parties to the agreement, integral components of the effective interest rate, transactional costs and any other premiums and discounts. As a result, commissions that are an integral part of the effective interest rate less direct costs of obtaining the financial instrument are recognized as components of interest income.

The effective interest rate applies for the gross carrying amount of financial asset, except for purchased or originated credit-impaired financial assets or impaired financial assets.

In the case of financial assets for which impairment losses were recognized, interest income is measured using the interest rate that was used to discount the future cash flows to estimate such impairment losses.

Interest income in respect of purchased or established financial assets with impairment on account of credit risk is determined by effective interest rate adjusted for credit risk.

Line item "Interest income" covers interest income on financial assets measured at amortized cost or financial assets measured at amortized cost through other comprehensive income. Line item "Similar income" as part of net interest income includes interest on financial assets measured at fair value through profit or loss. Interest on financial liabilities are presented in line item "Interest expense".

Interest income/expenses from derivatives designated as derivatives in hedge accounting are presented in the net interest income.

Fee and commission income and expenses

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

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

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

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

For other commissions Group performs:

- Identification of the contract with a customer,
- Identification of performance obligations,
- Determination of transaction price,
- Allocation of the transaction price to performance obligations to identify amounts to be recognized as revenue,
- Revenue recognition when (or as) it satisfies the performance obligation by transferring a promised good or service to a customer (transfer of a promised good or service is when the customer obtains control of the good or service).

If Group transfers control of service over time and, therefore, satisfies a performance obligation and the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, then fees are recognised over time in proportion to the completion of the service in fee income. In other cases the fees are recognised at a point in time when services have been completed and are presented in fee income. The above approach corresponds to the manner of meeting the obligations to provide services by the Group in accordance with IFRS 15. There are no situations of withholding services which would affect the manner of revenue recognition described above in connection with meeting the obligation to provide services. The nature of services provided by the Group is described in the Statutes, including situations in which the Bank acts as an intermediary. In the area of commission income, the remuneration received is in principle non-refundable.

The Group considers the terms of the contract to determine the transaction price. The transaction price is the amount of consideration (fixed, variable or both) to which Bank expects to be entitled in exchange for transferring promised services to a customer, excluding amounts collected on behalf of third parties.

The Group shall recognised an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
b) the costs generate or enhance resources of the Bank that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
c) the Group expects to recover the costs.

Income and expense from distribution of insurance products

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

In the case of products directly attributable to financial assets, where income is received up front for a period longer than one month, to establish the way of showing income on distributing this insurance, a model of relative fair value is used. On the basis of proportions of fair value of insurance product's distribution service and fair value of a loan against the sum of these values allocation of total income is established. Income from the sale of an insurance product is divided into the following components:

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

Above described income is shown with estimation of future returns on customers renouncing their insurance in given conditions.

Part of income corresponding to services rendered by the Group after the sale of an insurance product is bifurcated from income on account of services provided as an insurance agent and the portion is recognized over the life of the facility. The remainder is recognized up-front.

Costs directly attributable to the acquisition of a cash loan are amortized over the life of the product as an effective interest rate component and are part of the interest income.

If the Group incurs costs directly associated with the sale of an insurance product, such costs are accounted for in accordance with the principle of matching revenues and expenses. Costs not directly associated with the sale of insurance products are recognized when incurred.

Hedge accounting income

The valuation of hedged and hedging transactions in fair value hedge accounting is presented in this position.

Other operating income and expenses

Other operating income and expenses comprise income and expenses that are not directly related to banking activities. They include the proceeds from and costs of selling or disposing of tangible fixed assets and assets held for disposal, income from processing data for related companies, compensation, penalties and fines.

Income tax

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated in the other comprehensive income.

A deferred tax provision and asset are calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities in the statement of financial position and the tax base of assets and liabilities. In the statement of financial position, the Group discloses deferred tax asset net of deferred tax provisions after compensation, when there is a legal title to set such a compensation and when provision and asset refer to the same taxpayer.

Deferred tax assets are recognized only to the extent that it is probable that a tax benefit will be realized in the future.

Segment reporting

A segment is a separate part of the Group's operations, generating income and expenses (including from transactions within the Group), whose operating results are regularly analyzed by the Management Board as the main decision-making body, in order to allocate resources and assess its performance.

The Group is managed at the level of two main business segments - the Corporate Bank and Consumer Bank. Detailed information about the segments of the Group is presented in Note 3.

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

Accounting estimates and judgments

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

Fair value of derivatives

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

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

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

- futures – current quotations.

The Group uses a Credit Default Swap quotation for valuation of counterparty credit risk.

The Group differentiates the valuation of counterparty risk due to the availability of quotations of credit derivatives (CDS):

- Counterparty Credit Risk of companies for which there is an active CDS market: It is considered that the CDS quotes reflect the market value of the credit risk;
- Counterparty Credit Risk of companies for which there is no active CDS market: On the basis of the credit rating (external or internal, when an external rating is not available) and industry, the CDS index (for a given industry) is assigned to the company. It is considered that the industry index CDS quotes reflect the market value of the credit risk.

In the case of valuation of own credit counterparty risk (DVA), the Group is using a method defined for clients for which there is no active CDS market.

Main factors determining the change of counterparty credit risk estimations are: (i) change of fair value of derivative instruments correlated with a change of, inter alia, fx rates and interests rates, (ii) change of CDS quotes (iii) changes of credit risk ratings.

Write-offs for expected credit losses

The Group estimates the value of impairments for expected credit losses for all financial assets in connection with the classification of these assets to one of three stages determining the value of estimates and depending on the parameters adopted for the calculation.

On the basis of the calculations made, the Group makes regular allowances for impairment of loan expected losses, whose level is regularly monitored.

At each balance sheet date, the Group assesses whether there is an objective evidence of impairment of loan exposures. Exposure is assumed to be impacted by a credit impairment, when, because of credit risk, one or more events occurred, that have negative impact on forecasted future cash flow as per this exposure.

If so, the Group records an impairment loss equal to the difference between the carrying value and the estimated present value of the future cash flows from a given loan exposure.

Exposures that has not been classified as impaired exposures, despite the occurrence of certain conditions require justification and documentation why there was no credit impairment.

The methodology and assumptions used to determine the impairment level of loans are regularly reviewed and updated, as required. Further, data are back-tested (based on historical data) to compare the actual amounts with estimated credit impairment, what may have an influence on the methodology applied by the Group.

Impairment of goodwill

The Group carries out obligatory annual impairment tests of goodwill in accordance with the model based on guidance from IAS 36. The basis of valuation of the recoverable amount of cash-generating units, to which the goodwill is assigned, is their value in use which is estimated by the Bank’s management based on the financial plan reflecting the adopted assumptions on the future economic conditions and the expected Bank performance, the discount rate used in cash flow forecasts and the growth rate used to extrapolate cash flow forecasts beyond the period covered by the financial plan.

Employee benefits

Provisions for future payments in respect of employee benefits such as jubilee awards and retirement and pension allowances are subject to periodic actuarial estimation by an independent actuary. The amount of provisions corresponds with the currents value of future long-term liabilities of the Group to its employees according to employment and salaries on reporting day and is based on a number of assumptions in the field of staff statistics. Provisions are calculated on the basis of a number of assumptions on financial discount and probability of the given person reaching the retirement age as the Group’s employee, including staff turnover, risk of death and risk of total work incapacity.

Financial assets and liabilities – classification and measurement rules under IAS 39 applied in the financial statement for year 2017, which were changed on 01.01.2018 through implementation of IFRS 9

Classification

The Group classified its financial instruments into the following categories:
- financial assets or financial liabilities at fair value through profit or loss;
- loans and receivables;
- financial assets available-for-sale;
- other financial liabilities.

The Group classified financial assets to particular categories on the date of their first recognition.

(a) Financial assets or financial liabilities at fair value through profit or loss

This category had two sub-categories: (i) financial assets and liabilities held-for-trading and (ii) financial assets designated at fair value through profit or loss at initial recognition.
Assets or liabilities were included in this category once they were purchased with the primary objective of selling or repurchasing to generate short-term profits, they were a part of a portfolio of identified financial instruments that were managed together and for which there was evidence of generating short-term profits, or when they were classified to this category at the management's discretion provided that they met the criteria from IAS 39. The derivative instruments, excluding hedging instruments, and selected debt securities were also categorized as held-for-trading.

(b) Loans and receivables

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted on the active market. They arose when the Group provided funds to the debtor for any purpose except for the generation of short-term profits from trading in such loans or receivables. This category comprised, in the first instance, amounts due in respect of loans, purchased receivables and debt securities that were not quoted on the active market and internal deposits. The purchased receivables contained short-term receivables from domestic and foreign turnover documented by invoices and bills of exchange.

(c) Financial assets available-for-sale

Financial assets available-for-sale were those non-derivative financial assets that (i) were classified by the Group in this category at initial recognition or (ii) were not classified in any other asset category. Selected debt and equity securities were classified in this category.

(d) Other financial liabilities

Other financial liabilities were financial liabilities which were not classified as financial liabilities at fair value through profit or loss. Customers' deposits were primarily classified in this category and commercial commitments.

Recognition and derecognition

The principles of recognition and derecognition did not change as a result of transfer from IAS 39 to IFRS 9 except for those explaining significant and minor modifications described in the accounting principles applied in 2018.

Valuation

The principles of initial recognition, amortized cost measurement and fair value measurement methods did not change with transition from IAS 39 to IFRS 9.

Impairment of assets measured at amortized cost

Group classified assets measured at amortized cost into the portfolio of assets that were individually significant and the portfolio of assets that were not individually significant (portfolio basis). On the balance sheet date, the Group assessed if there was objective evidence of impairment of one financial asset or a group of financial assets. A financial asset or a group of financial assets were impaired and the impairment loss was incurred only when there was an objective evidence of impairment resulting from one or more events taking place after the initial recognition of an asset (the loss event) and the loss event (or events) influenced the future expected cash flows resulting from a financial asset or a group of financial assets which might be reliably estimated.

Objective evidence of impairment of a financial asset or group of financial assets included the following events known to the Group:
- significant financial difficulty of the issuer or obligor;

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

The losses expected as a result of future events regardless of their probability were not recognized.
Non-recoverable loans (i.e., loans for which the Group did not expect any future cash flows and that might be treated as tax deductible costs under separate tax regulations or that were unconditionally written off under an agreement with the customer) were, on the basis of Group's decision, written down against impairment allowances. If a written-down amount was subsequently recovered, the amount of income was presented in "Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted".

Forbearance

In case the Group granted a concession to the debtor, if it did not change significantly the terms and expected cash flows of the financial asset, the expected cash flows from the financial asset subject to the concession were included in the measurement of the asset using the prior effective interest rate for the instrument.
If the concession granted significantly changed the important terms or expected cash flows, the financial asset was derecognized and the new one was recognized at fair value on the day of initial recognition.

Impairment allowances for incurred but not recognized credit losses

The Group created impairment allowances for incurred but not recognized credit losses ("IBNR"). The IBNR impairment allowances process covered all receivables for which no evidence of impairment had been found or for which such evidence had been found but the individual assessment of possible impairment had not confirmed the need to write them down. The IBNR impairment allowances reflected the level of credit loss incurred but not reported, which would be identified at the level of exposure in the period of loss recognition adopted by the Group. The IBNR impairment allowances were calculated using statistical parameters for the assets combined in portfolios having similar credit risk characteristics. In the financial statements, the Group corrected credit exposure with the value of the IBNR impairment allowances.

Impairment allowances for individually significant assets

The level of the impairment write-off for receivables that were deemed as individually significant and for which evidence of impairment had been detected was calculated as the difference between the carrying value of an asset and the present value of the future cash flows from expected repayments by the borrower, from cash settlement of collateral or the sale of receivables. The future cash flows were discounted to the present value with the effective interest rate for a given instrument.
If the present value of the estimated cash flows increased after an event occurring after impairment had been identified, the write-off that had been previously made was reversed through profit or loss.

Impairment allowances for individually not significant assets

The level of the impairment allowances for receivables that were deemed as individually not significant, for which evidence of impairment had been detected, was calculated on the basis of a portfolio assessment which was based on the history of losses incurred on assets with similar risk characteristics.
Impairment write-off for amounts due from banks and customers, allowances for impairment of securities and other assets adjusted the value of particular asset categories. Provisions for contingent commitments were shown in the liabilities section "Provisions."

Impairment of financial assets available-for-sale

For financial assets classified as available-for-sale, for which there was objective evidence of impairment, the cumulative loss recognized in equity which was the amount of the difference between the purchase price adjusted for subsequent payment and amortization and fair value, taking into account the previous impairment losses, were transferred to the income statement. Impairment losses on equity investments classified as available-for-sale were not reversed through profit or loss. Loss on impairment of debt instruments classified as available-for-sale were reversed through profit or loss, if in subsequent periods the fair value of a debt instrument increased and the increase could be objectively related to an event occurring after the loss.

Impairment of financial assets measured at cost

The group of financial assets measured at cost in the financial statements of the Group consisted of shares in entities other than dependent entities classified as available-for-sale for which the fair value could not be reasonably measured (for example the assets were not quoted on an active market) and equity investments in dependent entities measured at purchase price in accordance with IAS 27 (Separate Financial Statements). In the case of objective evidence of impairment of equity investments, the amount of impairment was measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate for similar financial assets. Losses related to impairment of shares in entities other than dependent entities classified as available-for-sale where the fair value could not be reliably measured were not reversed through profit or loss. When there were impairment losses of equity investments in dependent entities measured at cost in accordance with IAS 27, IAS 36 “Impairment of Assets” was applied.

3. Segment reporting

A segment is a separable component of the Group engaged in business activities, generating income and expenses (including intergroup transactions), whose operating results are regularly reviewed by the Management Board of the parent entity as the chief operating decision-maker of the Group in order to allocate resources and assess its performance.

The Group is managed at the level of two main business segments – the Institutional Bank and Consumer Bank. The valuation of a segment’s assets and liabilities as well as calculation of financial results comply with the Group’s accounting policies applied in the preparation of the financial statements, including intergroup transactions between segments.

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

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

Institutional Bank

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

Consumer Bank

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

Income statement of the Group by business segment

For the period	2018			2017*		
PLN’000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Net interest income	499,331	608,243	1,107,574	501,716	580,431	1,082,147
Internal interest income, including:	(43,366)	43,366	-	(26,482)	26,482	-
Internal income	-	43,366	43,366	-	26,482	26,482
Internal expenses	(43,366)	-	(43,366)	(26,482)	-	(26,482)
Net fee and commission income	283,490	266,458	549,948	282,705	297,956	580,661
Dividend income	1,474	8,059	9,533	1,634	7,794	9,428
Net income on financial instruments and revaluation	335,714	28,490	364,204	316,484	29,791	346,275
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income**	112,631	-	112,631	35,772	-	35,772
Net gain/(loss) on equity and other instruments measured at fair value through income statement***	6,522	-	6,522	3,377	-	3,377
Net gain/(loss) on hedge accounting	3,682	-	3,682	10,261	-	10,261

For the period	2018			2017*		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Net other operating income	9,199	(3,298)	5,901	19,123	(18,567)	556
General administrative expenses	(490,817)	(617,430)	(1,108,247)	(484,315)	(634,338)	(1,118,653)
Depreciation and amortization	(18,326)	(53,058)	(71,384)	(19,504)	(53,588)	(73,092)
Profit on sale of other assets	(829)	16	(813)	10,836	93	10,929
Net impairment loss on financial assets and provisons for off-balance sheet commitments ****	8,628	(72,139)	(63,511)	(51,365)	(51,824)	(103,189)
Operating income	**750,699**	**165,341**	**916,040**	**626,724**	**157,748**	**784,472**
Share in net profits/(losses) of entities valued at equity method	(22)	-	(22)	242	-	242
Tax on some financial institutions	(64,339)	(23,011)	(87,350)	(56,077)	(21,557)	(77,634)
Profit before tax	**686,338**	**142,330**	**828,668**	**570,889**	**136,191**	**707,080**
Income tax expense			(189,816)			(171,514)
Net profit			**638,852**			**535,566**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*
*** Corresponds to the 'Debt securities available-for-sale' in accordance with IAS 39.*
****Corresponds to the 'Equity investments available for sale' in accordance with IAS 39.*
***** Corresponds to the 'Net impairment loss on financial assets and provisions for granted financial liabilities and guarantees' in accordance with IAS 39.*

As at	31.12.2018			31.12.2017*		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Total assets	**41,778,812**	**7,525,902**	**49,304,714**	**35,906,089**	**7,131,507**	**43,037,596**
Total liabilities and shareholders equity, including:	**34,822,272**	**14,482,442**	**49,304,714**	**30,134,111**	**12,903,485**	**43,037,596**
Liabilities	29,342,859	12,905,105	42,247,964	24,799,594	11,299,119	36,098,713

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

4. Net interest income

PLN'000	For the period 2018	2017*
Interest income from:	**1,249,769**	**1,276,762**
financial assets measured at amortized cost	**978,996**	**954,739**
Balances with Central Bank	6,559	16,885
Amounts due from banks	22,941	22,086
Amounts from customers, including:	949,496	915,768
financial sector entities	55,653	50,042
non-financial sector entities, including:	893,843	865,726
credit cards	286,435	282,408
Financial assets measured at fair value through comprehensive income	**270,773**	**322,023**
Debt investment financial assets measured at fair value through comprehensive income**	270,773	322,023
Similar income from:	**54,745**	**74,648**
financial assets measured at fair value through financial result	**54,745**	**74,648**
Debt securities held-for-trading	44,802	26,417
Liabilities with negative interest rate	9,943	7,161
Derivatives in hedge accounting	-	41,070
	1,304,514	**1,351,410**
Interest expense and similar charges for		
financial liabilities measured at amortized cost	**(191,070)**	**(203,202)**
Amounts due to banks	(43,021)	(37,947)
Amounts due to customers	(147,803)	(164,755)
Amounts due to financial sector entities	(59,482)	(52,867)

PLN'000	For the period	2018	2017*
Amounts due to non-financial sector entities		(88,321)	(111,888)
Loans and advances acquired		(246)	(500)
Financial liabilities measured at fair value though financial result		**(5,870)**	**(66,061)**
Assets with negative interest rate		(2,161)	(1,240)
Derivatives in hedge accounting		(3,709)	(64,821)
		(196,940)	**(269,263)**
Net interest income		**1,107,574**	**1,082,147**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*
*** Corresponds to the 'Interest and similar income from debt securities available-for-sale' in accordance with IAS 39.*

5. Net fee and commission income

PLN'000	For the period	2018	2017
Fee and commission income			
Insurance and investment products distrubution		82,085	72,654
Payment and credit cards		159,205	158,443
Payment services		106,995	105,913
Custody services*		85,086	122,805
Brokerage operations		42,665	55,332
Cash management services on customers' accounts		25,610	25,099
Guarantees granted		19,194	19,289
Financial liabilities granted		7,933	6,406
Other, including:		110,188	98,224
installment products in credit card		27,483	26,142
		638,961	**664,602**
Fee and commission expense			
Payment and credit cards		(36,685)	(28,571)
Brokerage operations		(12,865)	(16,181)
Fees paid to the National Depository for Securities (KDPW)		(18,928)	(19,782)
Broker's fees		(4,516)	(4,412)
Other		(16,019)	(14,995)
		(89,013)	**(83,941)**
Fee and commission income		**549,948**	**580,661**

**Starting from 1st quarter 2018 the remuneration of the Group from distribution of structured bonds for customers of Retail Sector in the amount of PLN 25,963 thousand, presented earlier in Custody services was moved to Insurance and investment products distribution. Comparative data was respectively restated (2017: PLN 33,362 thousand).*

The net fee and commission income for 2018 comprises commission income (other than income covered by the calculation of the effective interest rate process) related to financial assets and liabilities not measured at fair value through profit or loss in the amount of PLN 194,200 thousand (for 2017: PLN 164,040 thousand) and commission expenses in the amount of PLN 40,911 thousand (for 2017: PLN 28,571 thousand).

6. Dividend income

PLN'000	For the period	2018	2017
Securities available-for-sale		9,106	8,794
Securities held-for-trading		427	634
Total dividend income		**9,533**	**9,428**

7. Net income on financial instruments and revaluation

PLN'000	For the period	2018	2017
Net income on financial instruments measured at fair value through profit and loss from:			
Debt instruments		28,236	15,248
Equity instruments		(5,924)	1,775
Derivative instruments, including:		8,425	14,582
Interest rate derivatives		(313)	14,161
Capital derivatives		8,777	289
		30,737	**31,605**
Net income on FX operations			
Operations on FX derivative instruments		498,691	(215,674)
FX gains and losses (revaluation)		(165,224)	530,344
		333,467	**314,670**
Net income on financial instruments and revaluation		**364,204**	**346,275**

The net income on trading financial instruments and revaluation for 2018 contains movement in (net) adjustment of the valuation of derivatives from adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN (11,051) thousand (in 2017: PLN 396 thousand).

Net income from debt instruments includes the net results on trading in government securities, corporate debt securities and money market instruments held-for-trading.

Income from derivative instruments includes net income due to transactions in interest rate swaps, options, futures and other derivatives.

Net profit on foreign exchange includes profit and losses on valuation of assets and liabilities denominated in foreign currency and foreign currency derivatives such as forward, CIRS and option contracts and also contains a margin realized on spot and forward currency transactions.

8. Hedge accounting income

PLN'000	For the period	2018	2017
Fair value hedge accounting			
Net gain on hedged transaction valuation		14,526	29,469
Net gain on hedging transaction valuation		(10,844)	(19,208)
Hedge accounting income		**3,682**	**10,261**

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

9. Net other operating income and expense

w tys. zł	For the period	2018	2017
Other operating income			
Income from provision of services for related parties outside the Group		7,092	8,467
Income from office rental		7,650	8,951
Other		20,501	14,676
		35,243	**32,094**
Other operating expenses			
Amicable procedure and vindication expenses		(9,043)	(10,532)
Fixed assets held-for-sale maintenance cost		(87)	(100)
Net provision for litigation		(165)	(4,503)
Other		(20,047)	(16,403)
		(29,342)	**(31,538)**

w tys. zł	For the period	2018	2017
Net other operating income		**5,901**	**556**

10. General administrative expenses

PLN'000	For the period	2018	2017
Staff expenses			
Remuneration costs, including:		(385,245)	(389,404)
Provisions for retirement allowances		(28,626)	(33,781)
Bonuses and rewards, including:		(81,241)	(80,020)
Payments related to own equity instruments		(8,700)	(7,165)
Rewards for long time employment		(38)	(37)
Social insurance costs		(63,014)	(61,892)
		(529,500)	**(531,316)**
Administrative expenses			
Telecommunication fees and hardware purchases		(187,339)	(188,484)
Costs of external services, including advisory, audit, consulting services		(55,169)	(53,447)
Building maintenance and rent costs		(64,208)	(69,409)
Advertising and marketing costs		(47,213)	(42,702)
Cash management service, KIR service and other transactional costs		(37,634)	(39,076)
Costs of external services related to the distribution of banking products		(40,402)	(33,486)
Postal services, office supplies and printmaking costs		(7,657)	(9,630)
Training and education costs		(1,409)	(1,815)
Banking and capital supervision costs		(4,316)	(3,258)
Bank Guarantee Funds costs		(61,720)	(71,226)
Other expenses		(71,680)	(74,804)
		(578,747)	**(587,337)**
Total general administrative expenses		**(1,108,247)**	**(1,118,653)**

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

PLN'000	For the period	2018	2017
Short-term employee benefits		13,158	12,553
Long-term employee benefits		2,784	1,841
Capital assets		4,550	4,712
		20,492	**19,106**

11. Depreciation expense

PLN'000	For the period	2018	2017
Depreciation of property and equipment		(28,759)	(29,749)
Amortization of intangible assets		(42,625)	(43,343)
Depreciation expense, total		**(71,384)**	**(73,092)**

12. Sale of other assets

PLN'000	For the period	2018	2017
Profits on:			
Sale of tangible fixed assets		48	10,939
		48	**10,939**
Losses on:			
Sale of tangible fixed assets		(1)	(10)
Sale of fixed assets held-for-sale		(860)	-

	(861)	**(10)**
Sale of other assets	**(813)**	**10,929**

13. Net impairment on financial assets and net provisions for contingent commitments

PLN '000 For the period	2018	2017*
Net impairment on amounts due from banks		
Write-offs creation	(5,664)	(1,471)
Write-offs reversals	4,355	512
	(1,309)	**(959)**
Net impairment on amounts due from customers		
Write-offs creation and reversals	**(75,099)**	**(104,874)**
Write-offs creation	(214,504)	(211,432)
Net write-offs creation on receivables on taken instruments transactions	(215)	(155)
Write-offs reversals	140,482	99,810
Net write-offs creation on receivables on taken instruments transactions	208	1,545
Other	(1,070)	5,358
Recoveries from sold debts	**2,373**	**8,219**
	(72,726)	**(96,655)**
Net impairment on debt investment financial assets measured at fair value through other comprehensive income		
Write-offs reversals	1,069	-
	1,069	**-**
Net impairment on financial assets	**(72,966)**	**(97,614)**
Created provisions for granted financial and guarantee commitments	(33,810)	(17,773)
Release of provisions for granted financial and guarantee commitments	43,265	12,198
Net impairment on provisions for granted contingent commitments	**9,455**	**(5,575)**
Net impairment on financial assets and provisions for contingent commitments	**(63,511)**	**(103,189)**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

14. Income tax expense

Recognized in the income statement

PLN'000 For the period	2018	2017
Current tax		
Current year	(207,258)	(196,417)
Adjustments for prior years	(1,120)	(797)
	(208,378)	**(197,214)**
Deferred tax		
Origination and reversal of temporary differences	18,562	25,700
	18,562	**25,700**
Total income tax expense in income statement	**(189,816)**	**(171,514)**

Reconciliation of effective tax rate

PLN'000	For the period	2018	2017
Profit before tax		828,668	707,080
Income tax at the domestic corporate tax rate of 19%		(157,447)	(134,345)
Impairment write-offs not constituting deductible expenses		(2,322)	(4,693)
Deductible income not recognized in the income statement		(1,294)	(1,305)
Deductible expenses not recognized in the income statement		(120)	42
Non-taxable income		1,828	1,783
Tax on some financial institutions		(16,597)	(14,751)
Bank Guarantee Fund		(11,727)	(13,533)
Other permanent differences, including other non-deductible expenses		(2,137)	(4,712)
Total tax expenses		**(189,816)**	**(171,514)**
Effective tax rate		**22.91%**	**24.26%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2018 is related to financial assets measured at fair value through other comprehensive income and valuation of defined benefit plan and amounted to PLN (18,227) thousand (31 December 2017: PLN 3,327 thousand).

15. Earnings per share

As at 31 December 2018, earnings per share amounted to PLN 4.89 (31 December 2017: PLN 4.10).

The calculation of earnings per share as at 31 December 2018 was based on profit attributable to shareholders of PLN 638,852 thousand (31 December 2017: PLN 601,580 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2018 of 130,659,600 (31 December 2017: 130,659,600).

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

16. Changes in other comprehensive income

Deferred income tax and reclassification included in other comprehensive income concern the valuation of financial assets measured at fair value recognized in the revaluation reserve and valuation of specific services program recognized in the other reserves.

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2018	**(17,513)**	**3,327**	**(14,185)**
Change in valuation of financial assets measured at fair value through other comprehensive income**	229,136	(43,619)	185,517
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement***	(112,631)	21,400	(91,231)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	98,992	(18,892)	80,100
Net actuarial profits/(losses) on specific services program valuation	(3,507)	665	(2,842)
As at 31 December 2018	**95,485**	**(18,227)**	**77,258**

PLN'000	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2017	**(271,083)**	**51,506**	**(219,577)**
Change in valuation of financial assets available-for-sale	289,754	(55,054)	234,701
Valuation of financial assets available-for-sale sold, recognized to income statement	(35,772)	6,797	(28,975)
Total comprehensive income connected with financial assets available-for-sale	**(17,101)**	**3,249**	**(13,851)**
Net actuarial profits/(losses) on specific services program valuation	(412)	78	(334)
As at 31 December 2017*	**(17,513)**	**3,327**	**(14,185)**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

*** Corresponds to the 'Change in valuation of financial assets available-for-sale' in accordance with IAS 39.*
**** Corresponds to the 'Valuation of financial assets available-for-sale, recognized to income statement ' in accordance with IAS 39.*

17. Cash and balances with the Central Bank

PLN'000	**31.12.2018**	**31.12.2017**
Cash in hand	422,064	431,574
Current balances with Central Bank	3,850,088	29,031
Deposits	3,000,041	1,521
Cash and balances with the Central Bank, total	**7,272,193**	**462,126**

On the current account in the National Bank of Poland (NBP), the Bank maintains an obligatory reserve which may be used only under the condition that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

Declared balance of obligatory reserve amounted as at 31 December 2018 to PLN 1,271,148 thousand (31 December 2017: PLN 1,270,278 thousand).

18. Amounts due from banks

PLN'000	**31.12.2018**	**31.12.2017***
Current accounts	203,311	54,291
Deposits	386,058	499
Loans and advances	28	1,092
Receivables due to purchased securities with a repurchase agreement	630,126	276,477
Deposits pledged as collateral of derivative instruments and stock market transactions	118,364	505,526
Total gross amount	**1,337,887**	**837,885**
Impairment write-offs	(3,910)	(1,111)
Total net amount due from banks	**1,333,977**	**836,774**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

The amandments of gross amounts due from banks that contributed to movements in loss alloance amounts is as follows:

PLN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross amounts due from banks measured at amortized cost				
Loss allowance as at 31 December 2017	**-**	**-**	**-**	**(1,111)**
Impact of adopting IFRS 9	-	-	-	(1,236)
Gross amounts due from banks as at 1 January 2018	**(2,223)**	**(124)**	**-**	**(2,347)**
Transfer to Stage 1	(124)	124	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
(Creation)/Realeses in the period though the income statement	(1,309)	-	-	(1,309)
Foreign exchange and other movements	(254)	-	-	(254)
Gross amounts due from banks as at 31 December 2018	**(3,910)**	**-**	**-**	**(3,910)**

PLN '000	**31.12.2017***
As at 1 January	**(177)**
Increases (due to):	
Write-offs creation	(1,471)
Decreases (due to):	
Write-offs release	512

Other	25
As at 31 December	**(1,111)**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2018	**832,176**	**5,709**	**-**	**837,885**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Purchased/paid receivables	494,306	(5,700)	-	488,606
Derecognition	(9,118)	-	-	(9,118)
Other movements	20,520	(6)	-	20,514
Gross amounts due from banks as at 31 December 2018	**1,337,884**	**3**	**-**	**1,337,887**

19. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN'000	31.12.2018	31.12.2017
Debt securities held-for-trading		
Bonds and notes issued by:		
Other banks*	1	1
Other financial entities	12,943	48,412
Central governments	918,228	1,095,495
	931,172	**1,143,908**
Including:		
Listed on active market	931,172	1,143,908
Equity instruments held-for-trading	**23,227**	**17,885**
Including:		
Listed on active market	23,227	17,885
Derivative financial instruments	**1,282,677**	**1,018,132**
Financial assets held-for-trading, total	**2,237,076**	**2,179,925**

*As at 31 December 2018, some of the securities (bonds) issued by banks in the amount of PLN 1 thousand are covered by Government guarantees (31 December 2017: PLN 1 thousand).

Financial liabilities held-for-trading

PLN'000	31.12.2018	31.12.2017
Liabilities related to short-sale of securities	351,323	2,184
Derivatives	1,258,059	1,351,031
Financial liabilities held-for-trading, total	**1,609,382**	**1,353,215**

As at 31 December 2018 and 31 December 2017, the Group did not hold any financial assets and liabilities designated at fair value through profit or loss at initial recognition.

Derivative financial instruments as at 31 December 2018

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**45,235,963**	**51,859,256**	**105,616,028**	**27,776,966**	**230,488,213**	**1,024,561**	**1,116,297**
FRA	35,100,000	25,500,000	250,000	-	60,850,000	6,357	1,592
Interest rate swaps (IRS)	9,265,197	21,472,777	91,351,168	19,067,799	141,156,941	695,772	816,827
Currency-interest rate swaps (CIRS)	842,568	4,886,479	12,135,010	8,662,803	26,526,860	315,904	292,151
Interest rate options	-	-	1,879,850	46,364	1,926,214	5,806	5,727
Futures*	28,198	-	-	-	28,198	722	-
Currency instruments	**32,212,333**	**6,332,761**	**3,488,981**	**96,238**	**42,130,313**	**251,047**	**134,236**
FX forward	2,457,934	1,492,583	500,882	96,238	4,547,637	31,399	17,818
FX swap	28,261,956	3,934,789	2,885,819	-	35,082,564	210,549	107,304
Foreign exchange options	1,492,443	905,389	102,280	-	2,500,112	9,099	9,114
Securities transactions	**334,840**	**9,768**	**-**	**-**	**344,608**	**1,101**	**1,475**
Futures*	24,088	9,768	-	-	33,856	-	-
Securities purchased / sold pending delivery	310,752	-	-	-	310,752	1,101	1,475
Commodity transactions	**29,173**	**107,533**	**72,095**	**-**	**208,801**	**5,968**	**6,051**
Swaps	29,173	107,533	72,095	-	208,801	5,968	6,051
Total derivative instruments	**77,812,309**	**58,309,318**	**109,177,104**	**27,873,204**	**273,171,935**	**1,282,677**	**1,258,059**

**Exchange-traded products*

Derivative financial instruments as at 31 December 2017

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**24,295,666**	**17,869,973**	**85,623,135**	**24,725,360**	**152,514,134**	**789,232**	**927,088**
FRA	20,000,000	2,100,000	-	-	22,100,000	625	953
Interest rate swaps (IRS)	3,396,815	12,408,395	75,015,277	17,054,089	107,874,576	335,185	468,544
Currency-interest rate swaps (CIRS)	871,017	3,361,578	8,867,208	7,622,195	20,721,998	450,492	454,484
Interest rate options	-	-	1,740,650	49,076	1,789,726	2,742	3,042
Futures*	27,834	-	-	-	27,834	188	65
Currency instruments	**17,515,391**	**5,186,042**	**3,886,044**	**126,517**	**26,713,994**	**215,185**	**410,018**
FX forward	2,158,225	1,443,017	225,134	126,517	3,952,893	96,626	27,094
FX swap	13,876,902	1,554,055	3,127,637	-	18,558,594	92,936	357,344
Foreign exchange options	1,480,264	2,188,970	533,273	-	4,202,507	25,623	25,580
Securities transactions	**484,613**	**6,030**	**-**	**-**	**490,643**	**2,120**	**2,310**
Futures*	24,542	6,030	-	-	30,572	-	-
Securities purchased / sold pending delivery	460,071	-	-	-	460,071	2,120	2,310
Commodity transactions	**53,345**	**124,505**	**28,219**	**-**	**206,069**	**11,595**	**11,615**
Swap	49,261	107,896	28,219	-	185,376	10,802	10,819
Options	4,084	16,609	-	-	20,693	793	796
Total derivative instruments	**42,349,015**	**23,186,550**	**89,537,398**	**24,851,877**	**179,924,840**	**1,018,132**	**1,351,031**

**Exchange-traded products*

20. Debt investment financial assets measured at fair value through other comprehensive income

PLN'000	31.12.2018	31.12.2017*
Bonds and notes issued by:		
Central bank	-	1,399,713
Other banks, including:	-	32,576
bonds subject to fair value hedge accounting	-	32,576
Other financial entities	224,074	82,192
Central governments, including:	14,017,289	15,924,958
bonds subject to fair value hedge accounting	-	2,492,215
Debt securities measured at fair value through other comprehensive income, total**	**14,241,363**	**17 439,439**
Including:		
Listed on active market instruments	14,241,363	16,039,726
Unlisted on active market instruments	-	1,399,713

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*
*** Corresponds to the 'Debt securities available-for-sale' in accordance with IAS 39.*

For debt investment financial assets measured at fair value through other comprehensive income, the cumulated value of impairment as at 31 December 2018 amounts to PLN 4,524 thousand.

The movement in debt investment financial assets measured at fair value through other comprehensive income is as follows:

PLN'000	2018	2017
As at 1 January	**17,439,439**	**19,072,371**
Increases (due to):		
Purchases	44,485,571	47,305,910
Revaluation	100,274	257,684
Exchange differences	65,153	-
Depreciation of discount, premium and interest	262,038	411,359
Decreases (due to):		
Sale	(47,960,505)	(49,060,934)
Exchange differences	-	(352,893)
Depreciation of premium	(150,607)	(194,058)
As at 31 December	**14,241,363**	**17,439,439**

21. Equity investments valued using the equity method

PLN'000	31.12.2018	31.12.2017
Shares in subsidiaries	**10,399**	**10,664**
Including:		
Unlisted instruments	10,399	10,664

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

PLN'000	2018	2017
As at 1 January	**10,664**	**10,471**
Increases (due to):		
Revaluation	-	193
Decreases (due to):		
Revaluation	(265)	-
As at 31 December	**10,399**	**10,664**

22. Equity and other instruments measured at fair value through income statement

PLN'000	31.12.2018	31.12.2017
Stocks and shares in other entities	20,248	30,750
Impairment	28,520	(4,250)
Equity and other instruments measured at fair value through income statement, total	**48,768**	**26,500**
Including:		
Listed on active market instruments	1,027	1,316
Unlisted on active market instruments	47,741	25,184

The movement in equity and other instruments measured at fair value through income statement is as follows:

PLN'000	2018	2017
As at 1 January	**26,500**	**22,842**
Reclassification /Impact of adopting IFRS 9	16,064	-
As at 1 January 2018	**42,564**	**22,842**
Increases (due to):		
Revaluation	6,204	4,294
Decreases (due to):		
Sale	-	(636)
As at 31 December	**48,768**	**26,500**

23. Amounts due from customers

PLN'000	31.12.2018	31.12.2017*
Amounts due from financial sector entities		
Loans, placements and advances	401,223	444,754
Debt financial assets unlisted**	1,156,233	1,200,636
Receivables due to purchased securities with a repurchase agreement	182,613	
Guarantee funds and deposits pledged as collateral	362,807	365,788
Other receivables	45,330	1,312
Total gross amount	**2,148,206**	**2,012,490**
Impairment write-offs	(1,391)	(17,473)
Total net amount	**2,146,815**	**1,995,017**
Amounts due from non-financial sector entities		
Loans and advances	18,047,445	16,722,365
Unlisted debt financial assets**	568,024	496,125
Purchased receivables	1,830,937	1,193,041
Realized guarantees	481	1,038
Other receivables***	20,481	11,757
Total gross amount	**20,467,368**	**18,424,326**
Impairment write-offs	(665,169)	(570,310)
Total net amount	**19,802,199**	**17,854,016**
Total net amounts due from customers	**21,949,014**	**19,849,033**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*
*** Corresponds to the 'Unlisted debt securities' in accordance with IAS 39.*
**** As at 31 December 2018 position "Other receivables" contains leasing receivables in amount PLN 2,174 thousand (31 December 2017: PLN 3,982 thousand).*

The gross value of receivables does not include contractual interest accrued from the time the exposure is classified in Stage 3. The impact of including such interest on the gross carrying amount is presented below.

In amounts due from customers presented on the line "Unlisted debt securities" are securities assets covered by the

Group. Deciding to invest in securities based on economic calculation, measuring return on investment against the potential risks. The Group that owns the portfolio (the Initiator) founds a special purpose company (SPV) in order to issue debt securities in each securitization transaction. The issued debt securities are solely repaid from the cash flows generated by securitized receivables portfolio which the SPV bought from the Initiator. Unitl now the Group acted as investor and acquired the senior tranche in the amount of PLN 1,199,611 thousand. Securities purchased by the Group are not traded on the market. The Group intends to maintain investments until the maturity date. The main risk of securitisation transactions is credit risk. Group's maximum exposure to loss from involment in these entities is equal to their carrying gross value, as at 31 December 2018 in the of amount PLN 1,156,233 thousand (31 December 2017: PLN 1,200,636 thousand). The carrying value of assets relating in Bank participation in unconsolidated structured entities as at 31 December 2018 in the amount of PLN 1,155,554 thousand (31 December 2017: PLN 1,200,576 thousand).

In accordance with Transition Resource Group for Impairment of Financial Instruments the value of receivables in Stage 3 shall be presented increased by accrued contract interest in total amount of PLN 411,529 thousand. The result of this presentation of receivables is also the growth of loan provisions by the same amount. This change had no influence on total net value of receivables in Stage 3.

PLN '000	**31.12..2018**
Gross total value including contract interest in Stage 3	23,027,103
Impairment write-downs including contract interest in Stage 3	(1,078,089)
Net total value	**21,949,014**

Movement in loss allowance - amounts due from customers presents as follows:

PLN '000 **Loss allowance - amounts due from customers**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 31 December 2017	**-**	**-**	**-**	**(587,783)**
Impact of adopting IFRS 9	**-**	**-**	**-**	(86,124)
Reclassification	**-**	**-**	**-**	5,178
Loss allowance as at 1 January 2018	**(54,767)**	**(76,847)**	**(537,115)**	**(668,729)**
Transfer to Stage 1	(1,460)	1,460	-	-
Transfer to Stage 2	1,040	(1,040)	-	-
Transfer to Stage 3	-	270	(270)	-
(Creation)/Realeses in the period though the income statement	(697)	1,569	(75,971)	(75,099)
Decrease in write-downs due to write-offs	-	-	57,158	57,158
Decrease in write-downs in connection with the sale of receivables	-	-	21,292	21,292
Foreign exchange and other movements	(226)	(188)	(768)	(1,182)
Loss allowance as at 31 December 2018	**(56,110)**	**(74,776)**	**(535,674)**	**(666,560)**

As at 31 December 2018, the Group did not identify POCI assets (purchased or originated credit-impaired assets).

		2017*	
PLN '000	**Institutional customers**	**Retail customers**	**Total**
As at 1 January	**(278,639)**	**(284,782)**	**(563,421)**
Increases (due to):			
Creation of write-offs	(90,421)	(121,011)	(211,432)
Other	-	-	-
Decreases (due to):			
Restating receivables	26,214	13,470	39,684
Net write-offs on receivables on taken instruments transactions	1,390	-	1,390
Write-offs release	45,925	53,885	99,810
Sale of receivables	-	42,458	42,458
Other	3,287	441	3,728
As at 31 December	**(292,244)**	**(295,539)**	**(587,783)**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods*

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

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from customers measured at amortized cost				
Gross amounts due from customers as at 1 January 2018	**17,978,350**	**1,715,751**	**742,715**	**20,436,816**
Transfer to Stage 1	361,300	(358,736)	(2,564)	-
Transfer to Stage 2	(495,485)	497,527	(2,042)	-
Transfer to Stage 3	145,486	(69,223)	(76,263)	-
Purchased/paid receivables	2,923,010	152,723	(50,915)	3,024,818
Recognized recivables	-	-	(57,158)	(57,158)
Disposed recivables	-	-	(42,375)	(42,375)
Other movements	100,607	6,386	(5,758)	101,235
Gross amounts due from customers as at 31 December 2018	**20,468,724**	**1,642,110**	**504,740**	**22,615,574**

The gross value of amounts due from customers does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including such interest on the gross carrying amount is presented above.

For amounts due from customers which changed Stages during the period, transfers are presented as the change between the Stage as of 1 Janaury 2018 or at the moment of initial recognition and as of 31 December 2018.

Finance lease receivables

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

The asset position “Amounts due from customers” contains the following positions referring to receivables from the non-financial sector based on financial leasing:

PLN'000	31.12.2018	31.12.2017
Gross finance lease receivables	2,174	3,982
Impairment of finance lease receivables	(2,174)	(2 176)
Unrealized financial income	-	-
Net finance lease receivables	**-**	**1,806**

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

PLN'000	31.12.2018	31.12.2017
Less than 1 year	2,174	3,982
	2,174	**3,982**

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

PLN'000	31.12.2018	31.12.2017
Less than 1 year	2,174	3,982
Impairment of finance lease receivables	(2,174)	(2,176)
	-	**1,806**

Finance lease income is presented in interest income.

24. Tangible fixed assets

Movements of tangible fixed assets in 2018

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2018	**572,186**	**96**	**11,401**	**257,439**	**70,640**	**911,762**
Increases:						
Purchases	-	-	13,334	1,367	3,112	17,813
Other increases	-	-	-	254	-	254
Decreases:						
Disposals	-	-	(83)	(1,805)	-	(1,888)
Liquidation	(7,037)	-	-	(21,572)	-	(28,609)
Other decreases	(3)	-	-	(80)	(696)	(779)
Transfers	21,589	-	-	1,140	(22,729)	-
As at 31 December 2018	**586,735**	**96**	**24,652**	**236,743**	**50,327**	**898,553**
Depreciation						
As at 1 January 2018	**302,140**	**96**	**827**	**231,924**	**-**	**534,987**
Increases:						
Amortization change for the period	16,212	-	2,079	10,468	-	28,759
Other increases	-	-	-	253	-	253
Decreases:						
Disposals	-	-	(30)	(1,805)	-	(1,835)
Liquidation	(6,343)	-	-	(21,445)	-	(27,788)
Other decreases	-	-	-	(84)	-	(84)
As at 31 December 2018	**312,009**	**96**	**2,876**	**219,311**	**-**	**534,292**
Carrying amount						
As at 1 January 2018	270,046	-	10,574	25,515	70,640	376,775
As at 31 December 2018	**274,726**	**-**	**21,776**	**17,432**	**50,327**	**364,261**

Movements of tangible fixed assets in 2017

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2017	**592,771**	**96**	**1,215**	**278,112**	**19,465**	**891,659**
Increases:						
Purchases	71	-	10,725	4,588	76,904	92,288
Other increases	4,059	-	-	466	-	4,525
Decreases:						
Disposals	(34,397)	-	(539)	(13,446)	-	(48,382)
Liquidation	(623)	-	-	(17,702)	-	(18,325)
Other decreases	(22)	-	-	(87)	-	(109)
Transfers	10,327	-	-	5,508	(25,729)	(9,894)
As at 31 December 2017	**572,186**	**96**	**11,401**	**257,439**	**70,640**	**911,762**
Depreciation						
As at 1 January 2017	**298,366**	**96**	**510**	**249,716**	**-**	**548,688**
Increases:						
Amortization charge for the period	16,550	-	634	12,565	-	29,749
Other increases	-	-	-	462	-	462
Decreases:						
Disposals	(12,153)	-	(317)	(13,293)	-	(25,763)
Liquidation	(623)	-	-	(17,439)	-	(18,062)
Other decreases	-	-	-	(87)	-	(87)
As at 31 December 2017	**302,140**	**96**	**827**	**231,924**	**-**	**534,987**

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Carrying amount						
As at 1 January 2017	294,405	-	705	28,396	19,465	342,971
As at 31 December 2017	**270,046**	**-**	**10,574**	**25,515**	**70,640**	**376,775**

25. Intangible assets

Movements of intangible assets in 2018

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2018	**1,245,976**	**2,576**	**445,867**	**18,519**	**19,826**	**1,732,764**
Increases:						
Purchases	-	477	1,580	-	107,256	109,313
Decreases:						
Liquidation	-	-	(35,804)	-	-	(35,804)
Other decreases	-	-	-	-	(307)	(307)
Write-offs	-	(735)	-	(18,519)		(19,254)
Transfers	-	-	62,410	-	(62,410)	-
As at 31 December 2018	**1,245,976**	**3,053**	**474,053**	**-**	**64,365**	**1,786,712**
Depreciation						
As at 1 January 2018	**-**	**2,302**	**359,530**	**18,519**	**-**	**380,351**
Increases:						
Amortization charge for the period	-	263	42,362	-	-	42,625
Decreases:						
Liquidation	-	-	(35,804)	-	-	(35,804)
Write-offs	-	(735)	-	(18,519)	-	(19,254)
As at 31 December 2018	**-**	**2,565**	**366,088**	**-**	**-**	**367,918**
Carrying amount						
As at 1 January 2018	1,245,976	274	86,337	-	19,826	1,352,413
As at 31 December 2018	**1,245,976**	**488**	**107,965**	**-**	**64,365**	**1,418,794**

In 2018 Group analysed intangible assets in respect of their utilization and as a result Group no longer expects inflow of economic benefits from patents, licenses and other intangible assets, so they were written down.

Movements of intangible assets in 2017

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2017	**1,245,976**	**2,545**	**415,844**	**18,519**	**12,690**	**1,695,574**
Increases:						
Purchases	-	130	268	-	38,569	38,967
Decreases:						
Liquidation	-	-	(7,434)	-	-	(7,434)
Other decreases	-	(99)	(179)	-	-	(278)
Transfers	-	-	37,368	-	(31,433)	5,935
As at 31 December 2017	**1,245,976**	**2,576**	**445,867**	**18,519**	**19,826**	**1,732,764**

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Depreciation						
As at 1 January 2017	**-**	**2,347**	**323,847**	**18,519**	**-**	**344,713**
Increases:						
Amortization charge for the period	-	50	43,293	-	-	43,343
Other increases						
Decreases:	-	-	(7,434)	-	-	(7,434)
Liquidation	-	(95)	(176)	-	-	(271)
As at 31 December 2017	**-**	**2,302**	**359,530**	**18,519**	**-**	**380,351**
Carrying amount						
As at 1 January 2017	1,245,976	198	91,997	-	12,690	1,350,861
As at 31 December 2017	**1,245,976**	**274**	**86,337**	**-**	**19,826**	**1,352,413**

As at 31 December 2018, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise of ABN AMRO Bank (Poland) S.A. as at 1 March 2005.

26. Impairment test for goodwill

For the purpose of carrying out impairment tests, goodwill has been allocated to two cash generating-units: the Institutional Bank and Consumer Bank. Assignment was made on the basis of discounted cash flows models on the basis of the strategy before the merge. After fusion, reallocation of goodwill was conducted on the basis of the assets' relative values transferred to another center comparing to the assets held in the center given. For both sectors the value in use exceeds the carrying value, therefore no goodwill impairment was recognized.

The allocation of goodwill to cash-generating units is presented in the table below.

Book value of goodwill allocated to unit

PLN'000	31.12.2018	31.12.2017
Corporate Bank	851,944	851,944
Consumer Bank	394,032	394,032
	1,245,976	**1,245,976**

The basis of valuation of the recoverable amount for a unit is the value in use, assessed on the basis of the financial plan. The plan is based on rational assumptions about future facts that reflect management assessment of future economic conditions and expected results of the Group. The plan is periodically updated and approved by the Bank's Supervisory Board. The board accepted a 3 year time period for the process of financial planning.

The discount rate is assessed on the basis of the capital assets pricing model (CAPM) using a beta coefficient for the banking sector, a risk premium and Treasury bond yield curves. In 2018, the discount rate amounted to 8.80% (9.00% at the end of 2017).

Extrapolation of cash flows which exceed the period covered by the financial plan has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2018.

The Bank's Management Board believes that reasonable and probable changes in the key assumptions adopted in the valuation of the recoverable amounts for cash-generating units would not cause their book value to exceed their recoverable amount.

27. Deferred income tax asset and liabilities

PLN'000	31.12.2018	31.12.2017
Deferred income tax asset	540,524	371,401
Deferred income tax liability	336,317	195,497
Deferred income tax net asset	**204,207**	**175,904**

Deferred income tax asset and liabilities are presented in the statement of financial position after compensation.

Positive and negative taxable and deductible temporary differences are presented below:

Deferred tax asset is attributable to the following:

PLN'000	31.12.2018	31.12.2017
Interest accrued and other expense	10,755	10,059
Revaluation impairment write-offs	81,383	48,321
Unrealized premium from securities	81,285	58,436
Negative valuation of derivative financial instruments	286,037	164,999
Negative valuation of securities held-for-trading	280	688
Income collected in advance	30,700	29,480
Valuation of shares	(4,735)	779
Commissions	5,877	6,137
Debt and equity securities measured at fair value through other comprehensive income*	(974)	2,138
Staff expenses and other costs due to pay	45,883	45,663
Other	4,033	4,701
Deferred tax asset	**540,524**	**371,401**

*Corresponds to the 'Debt and equity securities available-for-sale' in accordance with IAS 39.

Deferred tax liability is attributable to the following:

PLN'000	31.12.2018	31.12.2017
Interest accrued (income)	40,067	37,828
Positive valuation of derivative financial instruments	246,146	115,419
Unrealized securities discount	2,312	7,097
Income to receive	2,748	3,243
Positive valuation of securities held-for-trading	722	568
Debt and equity securities measured at fair value through other comprehensive income*	25,490	10,833
Investment relief	10,453	11,401
Valuations of shares	1,926	1,930
Other	6,453	7,178
Deferred tax liability	**336,317**	**195,497**
Net deferred income tax asset	**204,207**	**175,904**

*Corresponds to the 'Debt and equity securities available-for-sale' in accordance with IAS 39.

Movement in temporary differences during the year 2018

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 31 December 2017	Impact of adopting IFRS 9	As at 1 January 2018	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2018
Interest accrued and other expense	10,059	-	10,059	696	-	10,755
Revaluation impairment write-offs	48,321	33,037	81,358	25	-	81,383
Unrealized premium from securities	58,436	-	58,436	22,849	-	81,285
Negative valuation of derivative financial instruments	164,999	-	164,999	121,038	-	286,037
Negative valuation of securities held-for-trading	688	-	688	(408)	-	280
Income collected in advance	29,480	-	29,480	1,220	-	30,700
Valuation of shares	779	(3,052)	(2,273)	(2,462)	-	(4,735)
Commissions	6,137	-	6,137	(260)	-	5,877
Debt and equity securities measured at fair value through other comprehensive income	2,138	-	2,138	812	(3,924)	(974)
Staff expenses and other costs due to pay	45,663	-	45,663	(445)	665	45,883
Other	4,701	-	4,701	(668)	-	4,033

PLN'000	As at 31 December 2017	Impact of adopting IFRS 9	As at 1 January 2018	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2018
	371,401	**29,985**	**401,386**	**142,397**	**(3,259)**	**540,524**

The movement in temporary differences relating to deferred tax provision:

PLN'000	As at 31 December 2017	Impact of adopting IFRS 9	As at 1 January 2018	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2018
Interest accrued (income)	37,828	(1,310)	36,518	3,549	-	40,067
Positive valuation of derivative financial instruments	115,419	-	115,419	130,727	-	246,146
Unrealized securities discount	7,097	-	7,097	(4,785)	-	2,312
Income to receive	3,243	-	3,243	(495)	-	2,748
Positive valuation of securities held-for-trading	568	-	568	154	-	722
Debt and equity securities measured at fair value through other comprehensive income	10,833	-	10,833	(3,348)	18,005	25,490
Investment relief	11,401	-	11,401	(948)	-	10,453
Valuations of shares	1,930	-	1,930	(4)	-	1,926
Other	7,178	-	7,178	(1,015)	290	6,453
	195,497	**(1,310)**	**194,187**	**123,835**	**18,295**	**336,317**
Change in net deferred income tax assets	**175,904**	**31,295**	**207,199**	**18,562**	**(21,554)**	**204,207**

Movement in temporary differences during the year 2017

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 1 January 2017	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2017
Interest accrued and other expense	11,360	(1,301)	-	10,059
Revaluation impairment write-offs	39,680	8,641	-	48,321
Unrealized premium from securities	46,370	12,066	-	58,436
Negative valuation of derivative financial instruments	158,457	6,542	-	164,999
Negative valuation of securities held-for-trading	2,938	(2,250)	-	688
Income collected in advance	26,455	3,025	-	29,480
Valuation of shares	2,039	(1,260)	-	779
Commissions	8,181	(2,044)	-	6,137
Debt and equity securities available-for-sale	50,395	-	(48,257)	2,138
Staff expenses and other cost due to pay	57,764	(12,179)	78	45,663
Other	3,020	1,681	-	4,701
	406,659	**12,921**	**(48,179)**	**371,401**

The movement in temporary differences relating to deferred tax liability:

PLN'000	As at 1 January 2017	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2017
Interest accrued (income)	39,158	(1,330)	-	37,828
Positive valuation of derivative financial instruments	127,598	(12,179)	-	115,419
Unrealized securities discount	7,372	(275)	-	7,097
Income to receive	4,842	(1,599)	-	3,243
Positive valuation of securities held-for-trading	(69)	637	-	568
Debt and equity securities available-for-sale	9,313	1,520	-	10,833
Investment relief	12,334	(933)	-	11,401
Valuations of shares	1,884	46	-	1,930
Other	5,844	1,334	-	7,178

PLN'000	As at 1 January 2017	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2017
	208,276	**(12,779)**	**-**	**195,497**
Change in net deferred income tax assets	**198,383**	**25,700**	**(48,179)**	**175,904**

28. Other assets

PLN'000	31.12.2018	31.12.2017
Interbank settlements	2,981	3,469
Settlements related to brokerage activity	34,217	164,303
Income to receive	53,170	53,131
Staff loans out of the Social Fund	17,427	17,039
Sundry debtors	106,198	78,308
Prepayments	8,925	9,198
Other assets, total	**222,918**	**325,448**
Including financial assets*	160,823	263,119

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

29. Non-current assets held-for-sale

Changes in tangible assets meant for sale are as follows:

PLN'000	01.01. – 31.12. 2018	01.01. – 31.12. 2017
Status at beginning of period	**1,928**	**1,928**
Increases:		
Remapping from tangible fixed assets		13,502
Decreases		
Sales	(1,928)	(13,502)
Status as of end of period	**-**	**1,928**

In 2018 the Bank sold two real estates classified as non-current assets held-for-sale. The value of negotiable amounted to PLN 1,928 thousand and the result on transaction amounted to PLN (860) thousand.

In 2017 the perpetual usufruct right to property including the improvements located there, worth PLN 13,502 thousand, that are under the Group ownership, were reclassified from tangible fixed assets to non-current assets held-for-sale in accordance to the conclusion of Conditional Sale Contract (as at 14 June 2017). As a result of the implementation of the only condition of the Agreement, i.e. in view of the fact the President of the Capital City of Warsaw not exercise the pre-emptive right to purchase real estate the Rights Transfer Agreement was concluded on 19 July 2017, and as a result, the transfer of ownership and payment of the price by the Purchaser. Transaction parameters: gross book value equal to net value amounted to PLN 13,502 thousand, net sale price amounted to PLN 24,000 thousand and the result on the transaction amounted to PLN 10,500 thousand.

30. Amounts due to banks

PLN'000	31.12.2018	31.12.2017
Current accounts	912,995	1,108,689
Term deposits	162,737	248,373
Loans and advances received	1,326	36,467
Liabilities due to sold securities under repurchase agreements	115,208	9,085
Other liabilities*	209,967	165,762
margin deposits	208,901	163,769
Total amounts due to banks	**1,402,233**	**1,568,376**

Movements in loans received:

w tys. zł	2018	2017
As at the beginning of the period	**36,467**	**128,026**
Increase (due to):		
drawing of loans	-	31,292
interest on loans	246	504
FX differences	549	-
Decrease (due to):		
repayment of loans	(35,866)	(118,861)
interest repayment	(70)	(407)
FX differences	-	(4,087)
As at the end of the period	**1,326**	**36,467**

31. Amounts due to customers

PLN'000	31.12.2018	31.12.2017
Deposits from financial sector entities		
Current accounts	704,512	531,361
Term deposits	6,335,488	4,321,787
	7,040,000	**4,853,148**
Deposits from non-financial sector entities		
Current accounts, including:	24,987,518	22,129,625
institutional customers	11,930,693	10,766,475
individual customers	9,380,065	8,536,410
public sector units	3,676,760	2,826,740
Term deposits, including:	6,069,930	4,962,380
institutional customers	3,476,957	3,053,104
individual customers	2,523,267	1,812,310
public sector units	69,706	96,966
	31,057,448	**27,092,005**
Total deposits	**38,097,448**	**31,945,153**
Other liabilities		
Other liabilities, including:	236,897	191,545
liabilities due to deposits	121,416	112,611
margin deposits	66,583	40,671
Total other liabilities	**236,897**	**191,545**
Total amounts due to customers	**38,334,345**	**32,136,698**

32. Provisions

PLN'000	31.12.2018	31.12.2017
Litigation*	3,221	3,154
Granted financial and guarantee liabilities*	26,481	12,789
Workforce restructuring	-	429
Restructuring of the branch network	282	1,928
Provisions, total	**29,984**	**18,300**

The movement in provisions is as follows:

PLN'000	**2018**	**2017**
As at 1 January	**18,300**	**22,856**
Provisions for:		
Litigation	3,154	3,823
Granted financial and guarantee commitments	12,789	7,215
Workforce restructuring	429	4,171
Restructuring of the branch network	1,928	7,647
Impact of adopting IFRS 9	22,886	-
Granted financial and guarantee commitments	22,886	-
Increases:		
Charges to provisions in the period:	34,430	23,347
litigation	359	5,574
granted financial and guarantee commitments	34,071	17,773
Decreases:		
Release of provisions in the period	(1,808)	(13,971)
litigation	(194)	(1,071)
granted financial and guarantee commitments	(43,265)	(12,198)
employment restructuring	(429)	(360)
restructuring of the branch network	(1,185)	(342)
Provisions used in the period, including:	(559)	(13,864)
litigation	(98)	(5,104)
workforce restructuring	-	(3,383)
restructuring of the branch network	(461)	(5,377)
Other, including	-	(68)
litigation	-	(68)
As at 31 December	**29,984**	**18,300**

**Additional information about provisions for litigation and granted financial and guarantee commitments are in Note 41.*

33. Other liabilities

PLN'000	**31.12.2018**	**31.12.2017**
Staff benefits	35,459	37,590
Interbank settlements	120,783	293,405
Inter-branch settlements	1,197	4,728
Settlements related to securities trading	284	-
Settlements related to brokerage activity	61,885	133,140
Settlements with Tax Office and National Insurance (ZUS)	26,328	20,857
Sundry creditors	295,702	172,434
Accruals:	242,908	237,601
Provision for employee payments	83,930	85,454
Provision for employee retirement	58,340	51,769
IT services and bank operations support	36,145	29,449
Consultancy services and business support	5,774	9,273
Other	58,719	61,656
Deferred income	21,177	19,838
Other liabilities, total	**805,723**	**919,593**
Including financial liabilities*	758,218	878,898

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

Classic payment condition in the frames of Group liabilities implementation resulting in rising the balance sheet liability is receiving in advance compensation for providing services in specified time. In accordance with this, the balance of liabilities is decreased on the time proportion basis and recognized as income. This procedure, in the best way, reflects implementation of liabilities to provision of providing services on time.

There is no remuneration not calculated in transaction price.

Within the range of liabilities to provision of providing services on time, the Group uses a method of income on the time proportion in the time of providing services. According to the bank, this method reflects the procedure of providing services

In the case of liabilities implement at the time, there is no subjective assesments within the range of setting the moment of control under the service by the client.

Within the area of methods, input data and assumptions adoptted to estimate variable remuneration, the Group uses approach most likely values in accordance to the remuneration received for achievement of the objectives, whereas within the range of remuneration reimbursements in insurance mediation, statistical methods are used. The Group addresses all issues setting the level of income subject to identified variables (remuneration under specified objectives, expected reimbrusemenrs, all discunts).

For the remuneration for mediation in distribution of incurance products, in particular with the insurance connected with Group's credit product, the model of relative fair value is used. According to this model, using the fair value of the credit product and the sell services of the insurance product, the Group divides into remuneration being part of interest income and remuneration for provided services connected with the distribution and operation of these products.

34. Financial assets and liabilities by contractual maturity

As at 31 December 2018

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	**18**	**1,337,887**	**812,646**	**-**	**296,245**	**228,996**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	19	931,172	32,546	-	17,948	648,758	231,920
Financial assets measured at fair value through other comprehensive income							
Debt financial asstes measured at fair value through other comprehensive income	20	14,241,363	121,044	-	-	11,499,980	2,620,339
Amounts due from customers (gross)							
Amounts due from financial sector entities	23	2,148,206	498,115	-	1,550,091	100,000	-
Amounts due from non-financial sector entities	23	20,467,368	7,704,493	1,492,378	2,510,333	6,886,074	1,874,090
Amounts due to banks	**30**	**1,402,233**	**1,384,456**	**2,683**	**15,000**	**43**	**51**
Amounts due to customers							
Amounts due to financial sector entities	31	7,103,501	7,100,962	446	2,072	-	21
Amounts due to non-financial sector entities	31	31,230,844	29,720,688	1,054,054	434,847	21,202	53

As at 31 December 2017*

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	**18**	**837,885**	**569,301**	**1,044**	**-**	**267,540**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	19	1,143,908	3,037	-	30,104	624,158	486,609
Financial assets available-for-sale							
Debt securities available-for-sale	20	17,439,439	1,399,713	-	-	11,589,050	4,450,676
Amounts due from customers (gross)							
Amounts due from financial sector entities	23	2,012,490	431,822	-	80,668	1,500,000	-
Amounts due from non-financial sector entities	23	18,424,326	6,539,253	1,586,970	1,402,874	6,833,854	2,061,375
Amounts due to banks	**30**	**1,568,376**	**1,512,790**	**6,635**	**42,594**	**6,314**	**43**
Amounts due to customers							
Amounts due to financial sector entities	31	4,890,736	4,711,398	174,350	4,957	12	19
Amounts due to non-financial sector entities	31	27,245,962	26,126,664	729,103	358,935	31,207	53

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods*

35. Capital and reserves

Share capital

Series/ issue	Type of shares	Type of preference	Type of limitation	Number of shares	Par value of series / issue [PLN'000]	Method of issue payment	Date of registration	Eligibility for dividends (from date)
A	bearer	none	-	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer	none	-	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer	none	-	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer	none	-	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer	none	-	17,648,500	70,594	paid in	24.05.02	01.01.97
B	bearer	none	-	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer	none	-	37,659,600	150,638	transfer of Citibank (Poland) assets to the Bank	28.02.01	01.01.00
				130,659,600	**522,638**			

The par value of 1 share amounts to PLN 4.00

As at 31 December 2018, the Parent entity's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares with a nominal value of PLN 4 each, which has not changed since 31 December 2017.

The Parent entity has not issued preferred shares.

Both in 2018 and 2017, there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2018 and 31 December 2017, held at least 5% of the total number of votes at the General Meeting or at least 5% of the Parent enity's share capital:

	Value of shares (PLN'000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

During 2018 and during the period from the publication of the previous interim quarterly report for Q3 2018 until the day of the publication of this annual consolidated financial statements for 2018, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2018, supplementary capital was PLN 3,003,290 thousand (31 December 2017: PLN 3,003,969 thousand). Supplementary capital is designated for offsetting financial losses or for other purposes including payment of dividends to the shareholders. The General Shareholders' Meeting of the Bank decides upon the utilization of supplementary capital, but a portion of its balance amounting to one third of total share capital may be used exclusively for offsetting losses shown in the financial statements.

The supplementary capital includes the amount of PLN 2,485,534 thousand constituting the excess of the fair value of the issued shares over their nominal value in connection with the business combination of the Bank and Citibank (Poland) S.A., which took place on 28 February 2001.

Revaluation reserve

PLN'000	31.12.2018	31.12.2017
Revaluation of financial assets measured at fair value through other comprehensive income*	84,372	(9,118)

**Corresponds to the 'Revaluation of financial assets available-for-sale' in accordance with IAS 39.*

The revaluation reserve is not distributed. As at the day of derecognition of all or part of the financial assets measured at fair value through other comprehensive income from the statement of financial position, retained earnings that were previously presented in the other comprehensive and accumulated income in "Revaluation reserve" are reclassified to the income statement.

Other reserves

PLN'000	31.12.2018	31.12.2017
Reserve capital	2,347,028	2,356,109
General risk reserve	540,200	540,200
Net actuarial losses on specific services program valuation	(7,910)	(5,070)
Foreign currency translation adjustment	4,520	4,359
Other reserves, total	**2,883,838**	**2,895,598**

On 8 June 2018 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2017, deciding to appropriate the amount of PLN 91 thousand for reserve capital.

Reserve capital

Reserve capital is created from the annual distribution of profits or from other sources, independently of the supplementary capital.

Reserve capital is designated for offsetting financial position losses or for other purposes, including payment of dividends to the shareholders. The General Shareholders' Meeting of the Bank makes decisions on utilization of reserve capital.

General risk reserve

The general risk reserve is recorded out of net profit against unidentified risk arising from banking activities. The General Shareholders' Meeting of the Bank makes decisions on utilization of the general risk reserve subject to applicable regulations.

Dividends

Dividends paid for 2017

At the meeting on June 8, 2018, the Ordinary General Meeting of Shareholders of the Bank Handlowy w Warszawie S.A. (hereinafter WZ) adopted a resolution on distribution of the net profit for 2017. The WZ resolved to appropriate the amount of PLN 537,010,956.00 to the dividend payment, which means that the dividend per one ordinary share is PLN 4.11. The number of shares covered by the dividend is 130,659,600.

Simultaneously, the WZ resolved to set the day of the right to the dividend for June 3, 2018 (day of dividend) and the day of the dividend payment for June 20, 2018 (day of the dividend payment).

Declared dividends

On 13 March 2019, the Bank's Management Board adopted a resolution on the proposed distribution of profit for 2018. The Bank's Management Board has proposed to allocate the amount of PLN 488,666,904.00 for the dividend payment. The dividend has a cash character. This means that the dividend per share amounts to PLN 3.74. The number of shares covered by dividends is 130,659,600. The dividend record date was designated as 13 June 2019 and the dividend payment date was designated as 24 June 2019. This proposal of the Bank's Management Board will be submitted to the Supervisory Board for an opinion and then to the General Shareholders' Meeting for approval.

36. Repurchase and reverse repurchase agreements

Repurchase agreements

The Group raises liquid assets by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

As at 31 December 2018, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities held for trading	113,972	115,208	up to a week	115,224

**including interest*

As at 31 December 2017, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities held for trading	9,079	9,085	up to a week	9,086

*including interest

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

As at 31 December 2018 and as at 31 December 2017, assets sold through repo cannot be further traded.

In 2018, the total interest expense on repurchase agreements was PLN 8,592 thousand (in 2017: PLN 12,981thousand).

Reverse repurchase agreements

The Group also purchases financial instruments under agreements to resell them at future dates (reverse repurchase agreements). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funding to customers.

As at 31 December 2018, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	115,203	114,155	Up to 1 week	115,214
	284,064	338,962	Up to 1 yaer	286,245
	227,282	238,833	Up to 3 years	228,996
Amounts due from other financial sector entities	182,613	183,090	Up to 1 week	182,627
	809,162	**875,040**		**813,082**

*including interest

As at 31 December 2017, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	9,085	8,974	Up to 1 week	9,086
	266,522	342,810	Up to 2 years	267,540

*including interest

As at 31 December 2018 and 31 December 2017, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2018, the total interest income on reverse repurchase agreements was PLN 9,908 thousand (in 2017: PLN 12,488 thousand).

As at 31 December 2018 the liabilities due to short sale of securities purchased in reverse repo transactions amounted to PLN 351,323 thousand (as at 31 December 2017: PLN 2,184 thousand).

37. Offsetting of financial assets and financial liabilities

According to information in Note 2, the Group does not offset financial assets and liabilities. Therefore, in line with requirements of IFRS 7, disclosures provided below relate only to financial assets and liabilities resulting from derivative contracts, settled by a central counterparty (CCP) - KDPW_CCP S.A. or concluded under master agreements such as ISDA, the Master Agreement recommended by the Polish Banks' Union and other master agreements, under which, in certain breaches of the contracts' provisions, the contract may be terminated and settled in the net amount of receivables and liabilities, where such offsetting has been recognized as legal effective.

The table below presents the fair values of derivatives (from the trading portfolio and designated as hedging instruments) as well as executable collateral for timed transactions and derivative framework deals enabling lawful compensation in described situations.

PLN'000	31.12.2018		31.12.2017	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	1,299,582	1,254,047	1,064,803	1,365,131
Value of collateral received/placed	(181,981)	(224,316)	(166,550)	(528,493)

PLN'000	31.12.2018		31.12.2017	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Assets and liabilities subject to offsetting under the master agreement	**1,117,601**	**1,029,731**	**898,253**	**836,638**
Maximum amount of potential offset	(1,007,304)	(1,007,304)	(778,682)	(778,682)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**110,297**	**22,427**	**119,571**	**57,956**

38. Hedge accounting

The Group hedges against the risk of change in the fair value of fixed interest rate debt securities available for sale. The hedged risk results from changes in interest rates.

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

The gain or loss on the hedged item attributable to the hedged risk is recognized in the result on hedge accounting in the income statement. The remainder of the change in the fair value valuation of debt securities available for sale is recognized in other comprehensive income. Interest income on debt securities is recognized in net interest income.

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognized in the result on hedge accounting in the income statement. Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedge are presented in the interest result in the position interest income/expense on derivatives in hedge accounting.

As at 31 December 2018, the Group did not possess any active hedging instruments. The cumulated amount of fair value hedging adjustments of the hedged positions in the statement of financial position where the adjustment to gains and losses on fair value hadging, as at 31 December 2018 amounted to PLN 39,399 thousand.

Fair value of instruments within fair value hedge accounting of securities

PLN'000	31.12.2017	
	Nominal value	Fair value
Hedged instruments		
Debt securities available-for-sale		
Treasury bonds	2,290,000	2,492,215
Bank bonds	30,000	32,576
Hedging instruments		
Derivative instruments		
Interest rate swaps – positive valuation	-	-
Interest rate swaps – negative valuation	2,320,000	50,191

39. Fair value information

Fair value of financial assets and liabilities

Fair value is a price that would be received for selling an asset or would be paid for transferring the liability in a transaction carried out in the conditions between the market participants, at the measurement date.

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

As at 31 December 2018

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value
Financial assets							
Cash and balances with Central Bank	17	-	7 272 193	-	-	7 272 193	7 272 193

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value
Amounts due from banks measured at amortized cost	18	-	1 333 977	-	-	1 333 977	1 333 896
Financial assets held-for-trading measured at fair value	19	2 237 076	-	-	-	2 237 076	2 237 076
Debt investment financial assets measured at fair value through other comprehensive income	20	-	-	14 241 363	-	14 241 363	14 241 363
Equity and other instruments measured at fair value through income statement	22	-	-	48 768	-	48 768	48 768
Amounts due from customers measured at amortized cost	23	-	21 949 014		-	21 949 014	21 897 248
		2 237 076	**30 555 184**	**14 290 131**	**-**	**47 082 391**	**47 030 544**
Financial liabilities							
Amounts due to banks	30	-	-	-	1 402 233	1 402 233	1 402 326
Financial liabilities held-for-trading	19	1 609 382	-	-	-	1 609 382	1 609 382
Amounts due to customers	31	-	-	-	38 334 345	38 334 345	38 332 779
		1 609 382	**-**	**-**	**39 736 578**	**41 345 960**	**41 344 487**

As at 31 December 2017*

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value
Financial assets							
Cash and balances with Central Bank	17	-	462,126	-	-	462,126	462,126
Amounts due from banks	18	-	836,774	-	-	836,774	836,774
Financial assets held-for-trading	19	2,179,925	-	-	-	2,179,925	2,179,925
Debt securities available-for-sale	20	-	-	17,439,439	-	17,439,439	17,439,439
Equity investments available-for-sale	22	-	-	26,500	-	26,500	26,500
Amounts due from customers	23	-	19,849,033	-	-	19,849,033	19,809,377
		2,179,925	**21,147,933**	**17,465,939**	**-**	**40,793,797**	**40,754,141**
Financial liabilities							
Amounts due to banks	30	-	-	-	1,568,376	1,568,376	1,568,474
Financial liabilities held-for-trading	19	1,353,215	-	-	-	1,353,215	1,353,215
Hedging derivatives		50,191	-	-	-	50,191	50,191
Amounts due to customers	31	-	-	-	32,136,698	32,136,698	32,135,871
		1,403,406	**-**	**-**	**33,705,074**	**35,108,480**	**35,107,751**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

Depending on the method of determining fair value, individual financial assets or liabilities are classified into the following categories:

- Level I: financial assets/liabilities valued directly on the basis of prices from an active market where the regular quotations and turnover are available.

  The active market includes stock and brokerage quotes and quotes in systems as pricing services, such as Reuters and Bloomberg, which represent the actual market transactions concluded on market conditions. Level I mainly includes securities held-for-trading or available-for-sale.

- Level II: financial assets/liabilities valued on the basis of models based on input data from the active market and presented in Reuters and Bloomberg systems; depending on financial instruments, the following specific valuation techniques are used:
  - listed market prices for a given instrument or listed market prices for an alternative instrument;

  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments;
  - other techniques, such as yield curves based on alternative prices for a given financial instrument.
- Level III: financial assets/liabilities valued on the basis of valuation techniques using relevant parameters not market-based.

In 2018, the Group did not make any changes in the classification of financial instruments (presented by the fair value method in the consolidated statement of financial position) to categories of fair value assignment (Level I, Level II, Level III).

The tables below present carrying amounts of financial instruments presented in the consolidated statement of financial position measured at fair value, arranged according to the above categories:

As at 31 December 2018

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	19	955,120	1,281,956	-	2,237,076
derivatives		722	1,281,955	-	1,282,677
debt securities		931,171	1	-	931,172
equity instruments		23,227	-	-	23,227
Debt investment financial assets measured at fair value through other comprehensive income	21	14,241,363	-	-	14,241,363
Equity and other instruments measured at fair value through income statement	23	1,027	-	47,741	48,768
Financial liabilities					
Financial liabilities held-for-trading	19	351,323	1,258,059	-	1,609,382
short sale of securities		351,323	-	-	351,323
derivatives		-	1,258,059	-	1,258,059

As at 31 December 2017*

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	19	1,161,980	1,017,945	-	2,179,925
derivatives		188	1,017,944	-	1,018,132
debt securities		1,143,907	1	-	1,143,908
equity instruments		17,885	-	-	17,885
Hedging derivatives		-	-	-	-
Debt securities available-for-sale	21	16,007,151	1,432,288	-	17,439,439
Equity investments available-for-sale		1,316	-	23,062	24,378
Financial liabilities					
Financial liabilities held-for-trading	19	2,249	1,350,966	-	1,353,215
short sale of securities		2,184	-	-	2,184
derivatives		65	1,350,966	-	1,351,031
Hedging derivatives		-	50,191	-	50,191

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

On the 31st of December 2018 the amount of financial assets classified to the Level III includes the share of PLN 28,520 thousand in Visa Inc. and the share of PLN 19,221 thousand in other minority shareholding.

On the 31st of December 2017 that amount includes the share of PLN 23,062 thousand in Visa Inc.

The fair value valuation method takes into account the value of shares of Visa Inc. as well as corrections resulting from legal cases (actual and potential) a party of which could be Visa or the Bank. Minority shareholdings in partnerships of Biuro informacji Kredytowej S.A. and Krajowa Izba Rozliczeniowa S.A. were measured to fair value based on book value of net assets based on financial statements of Partnerships.

According to the Bank's strategy, presented equity investments will be gradually reduced except for selected strategic investments in "infrastructure companies" that provide services to the financial sector. Particular entities will be sold at the most suitable time under market conditions.

Changes in financial assets and liabilities in, measured at a fair value that was defined by using relevant parameters not-market based are presented below:

PLN '000	01.01.-31.12.2018 Equity and other investments measured at fair value through income statement
As at 31 December 2017	**23,062**
Reclassification/ Impact of adopting IFRS 9	18,186
As at 1 January 2018	**41,248**
Revaluation	6,493
As at the end of period	**47,741**

PLN '000	01.01.-31.12.2017* Financial assets available-for-sale Equity investments
As at 1 January 2017	**18,965**
Revaluation	4,097
As at the end of period	**23,062**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

In 2018 and 2017, the Group did not make any transfers between levels of financial instruments fair value according to the methods establish fair value.

Fair value measurement

In the case of short-term financial assets and liabilities, it is assumed that their carrying amount is practically equal to their fair value. In the case of other instruments, the following methods and assumptions have been adopted.

Amounts due from customers and banks

The carrying amount of loans is presented at amortized cost less impairment. The fair value of loans and advances is calculated as the discounted value of expected future principal payments and takes into account fluctuations in market interest rates as well as changes in margins during the financial period. Changes in margins on loans are based on concluded transactions. It is assumed that loans and advances will be paid on the contractual date. In the case of loans for which repayment dates are not fixed (e.g., overdrafts), the fair value is the repayment that would be required if the amount were due on the balance sheet date.

For overnight placements, the fair value is equal to their carrying amount. For fixed interest rate placements, the fair value is assessed on the basis of discounted cash flows using current money market interest rates for receivables with similar credit risk, time to maturity, and currency.

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

Amounts due to banks and customers

In the case of on-demand deposits, as well as deposits without a pre-determined maturity date, the fair value is the amount that would be paid out if demanded on the balance date. The fair value of fixed maturity deposits is estimated on the basis of cash flows discounted with current interest rates taking into account current margins in a similar way as adopted for the valuation of loans.

As described above, the models used to determine the fair value of assets and liabilities to banks and customers, recognized in the consolidated statement of financial position at amortized cost, the use of valuation techniques based on non-market parameters. Therefore, the Group classifies the valuation of financial instruments for the purpose of disclosure to the third level fair value hierarchy. For all other financial instruments not at fair value, the Group believes that the fair value is generally approximates the carrying value

40. Derecognition of financial assets

In accordance with the amendments to IAS 1 'Presentation of financial statement', which result from adopting IFRS 9, the Group is obligated to disclose net gain/(loss) on derecognition of financial assets. That amount in Group comes down to gain on debt investment financial assets measured at fair value through other comprehensive income and amounted to 112,631 thousand PLN in 2018.

That gain resulted from sale of debt investment financial assets measured at fair value through other comprehensive income, according to description in note 2, section "Recognition, derecognition and insignificant modifications". In the separate income statement such gain is presented in item net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income (befora IFRS 9 application in item Net gain on debt investment securities available-for-sale").

Due to specific activity of the Group, changes in debt investment financial assets measured at fair value through other comprehensive income are presented in operating activities in cash flow statement.

41. Contingent liabilities and litigation proceedings

Information on pending proceedings

In 2018, there was no single proceeding regarding receivables and liabilities of the Bank or a subsidiary of the Bank, the value of which would be equal to at least 10% of equity, pending in court, before a public administration authority or an arbitration authority.

The total value of all pending legal proceedings regarding receivables or liabilities with the participation of the Bank and subsidiaries of the Bank did not exceed 10% of the Bank's equity in 2018.

Total value of liabilities of the Bank and its subsidiaries on all pending legal proceedings did not exceed 10% of the Bank's equity in 2018.

In accordance with applicable regulations, the Group recognizes impairment losses for receivables subject to legal proceedings.

In the case of legal proceedings involving the risk of cash outflow as a result of meeting the Group's commitments, the appropriate provisions are created.

As at 31 December 2018, the Bank was among others a party to 19 court proceedings associated directly with derivative transactions that have not been legally terminated: in 12 proceedings the Bank acted as a defendant and in 7 as a plaintiff. Additionally, during this time, the Bank was involved in two closing proceedings that were legally terminated, both resolved in the Banks favor (one in which the Bank was a plaintiff and one as a defendant). The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank.

The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressees of the President of UOKiK's decision in the case. The proceedings have concerned alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was the subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set in the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. The verdict is binding and enforceable. Due to the Banks submitted extraordinary appeal on the 25 October 2017 the Supreme Court has overturned the Appeal Court's verdict and the case has been returned to the Appeal Court for a second review. The appeals proceedings has begun again. In the first quarter of 2018, the Bank received the reimbursed of the fine which was recognized in the profit and loss. During the trial on October 24, 2018 no significant settlements were made. The trial is postponed for an indefinite period.

On Janury 2019, the Bank became aware of the filing of lawsuits by two prevous agentes, Rigall Arteria Management Ltd. with registered office in Warsaw and Rotsa Sales Direct Ltd. with registered office in Katowice.The lawsuits concerned claims related to agency agreements which in the past merged agents with the Bank and which expired as a result of termination by the Bank in 2014.

As at the date of this report, these claims have not been delivered to the Bank.

In the Bank's opinion, lawsuits may relate to claims on account of commission from agreements concluded during the term of the agency agreement with customers, acquired by agents for agreements of the same type (cross-sell commission) and for payment of compensatory benefit.

In the Bank's opinion, the amount of claims filed by companies is not justified. The Bank's position is confirmed by legally binding resolutions of legal actions taken by the companies against the Bank, which are beneficial for the Bank.

In 2018, there were no significant settlements on account of court cases which ended with a final judgment.

Commitments due to granted and received financial and guarantees liabilities

The amount of financial and guarantees commitments granted and received, by product category, is as follows:

PLN '000	State as at	
	31.12.2018	**31.12.2017**
Contingent liabilities and guarantees granted		
Letters of credit	137,669	167,983
Guarantees granted	2,589,013	2,312,023
Credit lines granted	14,023,057	14,292,534
Underwriting other issuers' securities issues	47,587	43,942
	16,797,326	**16,816,482**

PLN '000	**31.12.2018**	**31.12.2017**
Letters of credit		
Import letters of credit issued	137,669	148,607
Export letters of credit confirmed	-	19,376
	137,669	**167,983**

Guarantees issued include credit principal repayment guarantees, other repayment guarantees, advance repayment guarantees, performance guarantees, tender guarantees, and bill of exchange guarantees.

The provisions of contingent liabilities and guarantees granted by the Group are established. As at 31 December, 2018 the amount of provisions of granted contingent liabilities and guarantees was PLN 26,481 thousand (31 December 2017: PLN 12,789 thousand).

Movement in loss allowance - contingent liabilities and guarantees granted presents as follows:

PLN '000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance - contingent liabilities and guarantees granted				
Loss allowance as at 31 December 2017	**-**	**-**	**-**	**12,789**
Impact of adopting IFRS 9	**-**	**-**	**-**	22,886
Loss allowance as at 1 January 2018	**19,061**	**10,837**	**5,777**	**35,675**
Transfer to Stage 1	149	(149)	-	-
Transfer to Stage 2	(278)	278	-	-
Transfer to Stage 3	-	-	-	-
(Creation)/Realeses in the period though the income statement	(5,086)	(676)	(3,693)	(9,455)
Foreign exchange and other movements	237	28	(4)	261
Loss allowance as at 31 December 2018	**14,083**	**10,318**	**2,080**	**26,481**

As at 31 December 2018, the Group did not identify POCI assets (purchased or originated credit-impaired assets").

Movements in contingent liabilities granted that contribute to movements in loss allowance to presents as follows:

PLN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross amount of contingent liabilities granted				
Gross amount of contingent liabilities granted as at 1 January 2018	**15,283,408**	**1,495,682**	**37,392**	**16,816,482**
Transfer to Stage 1	28,287	(28,287)	-	-
Transfer to Stage 2	(548,835)	548,835	-	-

PLN'000	Stage 1	Stage 2	Stage 3	Total
Transfer to Stage 3	-	(156,025)	156,025	-
Increase/Decrease	408,281	(343,928)	(161,049)	(96,696)
Other movements	88,212	(10,694)	22	77,540
Gross amount of contingent liabilities granted as at 31 December 2018	**15,259,354**	**1,505,582**	**32,390**	**16,797,326**

PLN'000	31.12.2018	31.12.2017
Financial and guarantees liabilities received		
Finance		-
Guarantees	19,278,757	18,142,380
	19,278,757	**18,142,380**

42. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2018	31.12.2017
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	115,208	9,085
credit received	1,668	36,970
	116,876	**46,055**

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

PLN'000	31.12.2018	31.12.2017
Assets pledged		
Debt securities held-for-trading	88,806	9,079
Debt investment financial assets measured at fair value through other comprehensive income*	170,908	334,396
Financial assets measured at amortized cost (reverse repo)	25,166	-
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market trading	118,364	505,526
Amounts due from customers		
Stock market trading guarantee funds and settlements	362,807	365,788
	766,051	**1,214,789**

** Corresponds to the 'Debt securities available-for-sale' in accordance with IAS 39.*

Debt investment financial assets measured at fair value through other comprehensive income as at 31 December 2018 constitute collateral of the Bank's obligations under securities sold with a repurchase agreement.

As at 31 December 2018, the debt investment financial assets measured at fair value through other comprehensive income presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund in the amount of PLN 168,106 thousand (31 December 2017: PLN 183,843 thousand) collateral against credit received: PLN 2,802 thousand (31 Decemeber 2017:PLN 150,553 thousand).

Financial assets measured at amortized cost constitute collateral of the Bank's obligations under securities sold with a repurchase agreement.

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

Other assets disclosed above secure settlement of other transactions including derivatives transactions and stock market transactions. The terms and conditions of the transactions executed to date are standard and typical for such dealings.

43. Custodian activities

The Bank offers both custodian services connected with securities accounts for foreign institutional investors and custodian services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2018, the Bank maintained over 14.3 thousand securities accounts (31 December 2017: approx. 9.2 thousand accounts).

44. Operating leases

Leases where the Group is the lessee

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

PLN'000	**31.12.2018**	**31.12.2017**
Less than 1 year	3,234	4,399
Between 1 and 5 years	28,154	28,734
More than 5 years	27,331	18,974
	58,719	**52,107**
Total annual rentals for contracts for an unspecified period of time	**173**	**673**

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

Most of the office space lease contracts are signed for 5 years with the option of extension for another three years; however, some contracts have been signed for a period up to 1 year and some for more than 10 years. Lease payments are subject to annual indexation. The total amount of lease payments in 2018 amounted to PLN 21,074 thousand (in 2017: PLN 21,548 thousand).

The car leases are signed for 4 years. Lease payments are based on a fixed interest rate throughout the lease period. In 2018, total amount of leasing fees amounted to PLN 2,030 thousand (in 2017: PLN 4,951 thousand).

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

Leases where the Group is the lessor

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

PLN'000	**31.12.2018**	**31.12.2017**
Less than 1 year	41	28
Between 1 and 5 years	6,976	2,958
More than 5 years	-	3,363
	7,017	**6,349**
Total annual rentals for contracts for an unspecified period of time	**5,780**	**6,160**

The Group leases some office space under lease contracts which fulfill the economic criteria of operating leases.

Most of the office space lease contracts are signed for an unspecified period of time. Other contracts are signed for a period of between 2 and 10 years. Lease payments are subject to annual indexation. The income related to these contracts amounted in 2018 to PLN 8,431 thousand (in 2017: PLN 9,019 thousand).

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

45. Additional information to the statement of cash flows

PLN'000	**31.12.2018**	**31.12.2017**
Cash related items:		
Cash in hand	422,064	431,574
Nostro current account in Central Bank	6,850,088	29,031
Current accounts in other banks (nostro, overdrafts on loro accounts)	202,826	53,980
	7,474,978	**514,585**

46. Transactions with the key management personnel

PLN'000	31.12.2018		31.12.2017	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**165**	**-**	**174**	**48**
Deposits				
Current accounts	8,969	2,307	9,246	3,508
Term deposits	7,695	380	7,935	450
	16,664	**2,687**	**17,181**	**3,958**

As at 31 December 2018 and 31 December 2017, no loans or guarantees were granted to members of the Management Board or the Supervisory Board.

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

Within the scope of the work relationship, among contracts of employment between the Bank and Members of the Management Board, only in one case of one Member of Management Board the contract includes a provision on financial compensation in the case of its termination upon notice.

A separate non-competition agreement conducted with the Bank applies to each member of the Bank's Management Board. According to its provisions, in case of termination of employment in the Bank, period of 12 months (in the case of one member of the Management Board – of 6 months) from the date of employment termination, the member of the Management Board is obligated to refrain from competitive activities against the Bank. Due to limitations mentioned above, the Bank will be obliged to pay compensation to the member of the Management Board.

47. Related parties

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

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

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

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

Transactions with Citigroup Inc. entities

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

PLN'000	31.12.2018	31.12.2017
Receivables, including:	172,180	361,827
Placements	-	-
Liabilities, including:	780,029	1,078,905
Deposits*	218,934	254,814
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	449,183	446,178
Assets of derivative hedging instruments	-	-
Liabilities held-for-trading	379,293	716,669
Liabilities due to hedging derivatives	-	17,507
Contingent liabilities granted	439,748	373,018
Contingent liabilities received	34,834	71,587
Contingent transactions in derivative instruments (nominal value), including:	57,380,600	40,741,781
Interest rate instruments	28,293,455	25,946,494
Interest rate swaps (IRS)	6,740,216	9,456,993
Currency – interest rate swaps (CIRS)	20,561,934	15,566,804

PLN'000	**31.12.2018**	**31.12.2017**
Interest rate options	963,107	894,863
Futures contracts	28,198	27,834
Currency instruments	28,881,240	14,591,578
FX forward/spot	605,006	745,294
FX swap	26,994,552	11,687,926
Foreign exchange options	1,281,682	2,158,358
Securities transactions	101,504	100,674
Securities purchased pending delivery	48,266	79,250
Securities sold pending delivery	53,238	21,424
Commodity transactions	104,401	103,035
Swaps	104,401	92,688
Options	-	10,347

**including deposits from parent company in the amount of PLN 9 thousand (31 December 2017: PLN 7 thousand)*

PLN'000	**2018**	**2017**
Interest and commission income*	35,734	55,347
Interest and commission expense*	30,061	42,918
General administrative expenses	169,775	184,019
Other operating income	7,092	8,467

** including interest and commission income in amount of PLN 1,505 thousand (2017: PLN 1,431 thousand) and interest and commission expense in amount of PLN 2 thousand (2017 : PLN 5 thousand) refer to the parent company*

The Group incurs costs and receives income on derivative transactions with Citigroup Inc. entities to hedge the Bank's position in market risk. These derivative transactions are opposite (back-to-back) to derivative transactions with other Group clients or close the proprietary position of the Group. The net carrying amount of financial derivative transactions with related entities as at 31 December 2018 amounted to PLN 69,890 thousand (as at 31 December 2017: PLN (287,998) thousand). The Bank runs a compression of derivative transaction portfolios' periodically. It is one of the risk-mitigation techniques recommended by "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulations this in particular applies to the portfolios exceeding 500 derivative transactions.

Furthermore, the Group incurs costs and receives income from agreements concluded between Citigroup Inc. entities and the Group for the mutual provision of services.

The costs arising and accrued (including VAT, reflected in the Group's costs) under concluded agreements in 2018 and 2017 mainly related to the cost of services provided to the Group for the maintenance of the banking IT systems and advisory support and are included in general administrative expenses; income was mainly related to the provision of data processing services by the Group to such entities and is presented in other operating income.

In 2018 the capitalization of investments regarding functionality modification of retail banking IT systems took place. Total payments for Citigroup Inc. entities amounted to PLN 32,912 thousand (in 2017: PLN 79,805 thousand).

48. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the income statement in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense;

- benefits after termination of employment – including retirement allowances (see Note 2) and pension plans presented below offered by the Group to its staff.

  A provision is created for future retirement allowances that is shown in the consolidated statement of financial position in "Other liabilities." An independent actuary periodically verifies the provision in accordance with IFRS EU.

  The Group's pension plan is a defined contribution program in accordance with IAS 19. The Group pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses in the period they concern.

Description of the Employee Pension Plan

The Group conducts for its employees the Employee Pension Plan ("PPE", "Plan"), registered by the Supervisory Authority under number RPPE 178/02. Collective agreement is based on records on paying the employees' contributions to the investment fund by the employer. The Plan is conducted and managed by Esaliens TFI S.A. (previously Legg Mason TFI S.A.).

The basic contribution paid by the employer is defined as a percentage of salary of the Plan member. The basic contribution rate amounts to 7%. The additional contribution – voluntary, is paid by an employee – the Plan participant. The minimum amount of the monthly additional contribution is PLN 10,00 and the maximum amount of the additional contribution is limited to the amount resulting from Announcement of Minister of Labour and Social Policy regarding value of corresponding sum of additional contributions made by participator Plan in concerned year, based on articles 25 item 4a Act of 20 April 2004 regarding employee pension plan (Journal of Law of 2016, item 1449). The basic contribution is the Plan participant's income, from which he is obligated to pay the personal income tax (articles 12 and 13 of the Act on the income tax from individuals of 26 July 1991, Official Journal from 2016, item 2032 with amendments).

Payments from the Plan are paid after the participant's or entitled person's motion and under conditions specified in program.

The Plan participant may quit the Plan. The employer stops charging and paying basic and additional contributions for the Plan participant, and the funds, which were so far collected on the Plan participant's registers, are left there till the time of payment, transfer payment, transfer or refund.

- other long-term employee benefits – jubilee and other long service awards and deferred cash awards. From 1 of January 2015, employees with long-term work-experience (10, 20, 30 years etc.) are entitled to rewards in kind.
- employee equity benefits – in the form of phantom shares of Bank Handlowy w Warszawie S.A. and also in the form of common stock under stock award programs based on shares of Citigroup common stock in the form of deferred stock. Valuation and presentation principles of these programs are described in Note 2 in "Share-based payments." In 2017 there were no employees rewarded as part of the stock award programs based on Citigroup shares. Detailed information concerning the employee equity benefits are presented in the further part of this Note.

Provisions/accruals for the above employee benefits are as follows:

PLN'000	**31.12.2018**	**31.12.2017**
Provision for remuneration	56,281	55,410
Previsions for unused leave	12,194	14,326
Provision for employees' retirement and pension benefits	58,340	51,769
Provision for employees' equity compensation	15,456	15,719
Provision for workforce restructuring	-	429
	142,271	**137,653**

The provision for retirement and pension benefits is created individually on the basis of an actuarial valuation performed periodically by an external independent actuary. The valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The Group performed a reassessment of its estimates as at 31 December 2018, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. The discount rate was set at 3.00% and wage growth rate at 2.5%.

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

PLN'000	**2018**	**2017**
	Provision for retirement allowances	**Provision for retirement allowances**
As at 1 January	**51,768**	**41,936**
Increases (due to):	9,473	11,669
Actuarial profit/loss on revaluation	3,507	412
Including those resulting from:		
Change of economic assumptions	4,615	2,073

Change of demographic assumptions	93	227
Experience adjustment	(1,201)	(1,888)
Remuneration cost	4,106	3,111
Interest cost	1,860	1,468
Past employment cost	-	6,678
Decreases (due to):	(2,902)	(1,837)
Provisions utilisation	(2,902)	**(1,837)**
As at 31 December	**58,339**	**51,768**

Analysis of sensitivity for significant actuarial assumptions

w tys. zł	2018	2017
	Provision for retirement and pension allowances	Provision for retirement and pension allowances
Central value	58,340	51,768
Decrease of growth salary to 1 p.p.	51,403	45,877
Increase of growth salary to 1 p.p.	66,488	58,702
Decrease of rotation by 10%	61,111	58,511
Increase of rotation by 10%	55,804	49,584
Decrease of discount rate by 0.5 p.p., including:	61,911	53,382
Falling to benefits paid within 1 year	3,952	5,038
Increase of discount rate by 0.5 p.p., including:	54,765	50,226
Falling to benefits paid within 1 year	3,946	5,037

More information abouth specific services programs in the Banks financial report can be found in note 2.

In 2018, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 23,757 thousand (in 2017: PLN 23,528 thousand).

Employment in the Group:

FTEs	2018	2017
Average employment during the year	3,413	3,561
Employment at the end of the year	3,276	3,487

Description and principles of employee stock benefit schemes

Under the employee stock benefit program, the phantom shares of Bank Handlowy w Warszawie S.A. and awards in the form of Citigroup stock (the so-called Capital Accumulation Program, or CAP) are offered to selected employees.

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. "Deferred shares" within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. "Deferred shares" give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. "Deferred shares" are converted into stocks after the end of a period that is determined in the Program Rules. As a general rule, the employee has a right to options revoked at the moment of employment termination in the Citigroup, provided the termination of said contract "Capital Accumulation Program – Prospectus" for granted options. Deferred shares granted in previous years will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

In 2018 no employees were rewarded as part of this program.

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

As of 22 December 2017 the Bank implemented the employee remuneration Policy of Bank Handlowy w Warszawie S.A., replacing the prior policy for the remuneration of key persons in the Bank Handlowy w Warszawie S.A..

According to the above mentioned policy's, the Management Board of the Bank and other managerial staff having a significant influence on the Bank's risk profile receive variable remuneration in relation to individual performance and the Bank's financial results.

A portion of the Variable Remuneration awarded conditionally in 2018 for persons covered by the Policy will be paid in tranches during in the next 3,5 years or 6 years for the President of the Management Board. The Policy implemented as of 22 december 2017, introducing changes among other to the fields of postponements and retention had an effect on the varying remuneration granted conditionally in 2018.

Variable Remuneration – Phantom shares	
Transaction as per IFRS EU	Transactions share-based payments settled in cash in accordance with IFRS 2
Phantom Shares grant date	18 of January 2016 16 of January 2017 15 of January 2018
Number of Phantom Shares granted	The number of shares was set on grant date

Date of maturity	• Phantom Shares for the President of the Management Board
	  o in 2016 and 2017 - at least 6, 18, 30 and 42 months after grant date
	  o in 2018 roku – at least 12, 24, 36, 48, 60, 72
	• Phantom Shares granted in 2016-2018 for other employees – at least 6, 18, 30, 42 months after grant date

Vesting date	• Phantom Shares for the President of the Management Board
	  o in 2016 and 2017 - at least 6, 12, 24 and 36 months after grant date
	  o in 2018 roku – at least 12, 24, 36, 48, 60
	• Phantom Shares granted in 2016-2018 for other employees – at least 6, 12, 24, 36 months after grant date

Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Group in
	• 2016: in relation to the award from 2016-2019
	• 2017: in relation to the award from 2017-2020
	• 2018:
	  o For the President of the Management Board in relation to the award from 2018-2023
	  o For other employee in relation to the award from 2018-2021

Program settlement	At the settlement date, the participants will get an amount of cash being the product held by a participant phantom shares and the arithmetic mean of the lowest and highest prices of shares of the Bank notified on WSE at the maturity date. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank Management, the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

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

Variable Remuneration – Deferred Cash Award	
Transaction as per IFRS EU	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	18 of January 2016 16 of January 2017 14 of January 2018
Granted amount	The amount was settled on the Deferred Cash Award grant date

Date of maturity	• Deferred Cash Award for the President of the Management Board
	  o in 2016 and 2017 - at least 18, 30 and 42 months after grant date
	  o in 2018 roku – at least 18, 30, 42, 54, 66
	• Deferred Cash Award granted in 2016-2018 for other employees – at least 18, 30, 42 months after grant date

Vesting date	• Deferred Cash Award for the President of the Management Board
	  o in 2016 and 2017 - at least 12, 24 and 36 months after grant date
	  o in 2018 roku – at least 12, 24, 36, 48, 60

Variable Remuneration – Deferred Cash Award	
	• Deferred Cash Award granted in 2016-2018 for other employees – at least 12, 24, 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Group in • 2016: in relation to the award from 2016-2019 • 2017: in relation to the award from 2017-2020 • 2018: o For the President of the Management Board in relation to the award from 2018-2023 o For other employee in relation to the award from 2018-2021
Program settlement	At the settlement date, the participants will get an amount of Deferred Cash tranche with interest counted for the deferral period till the payment date. The interest rate was approved by the Resolution of the Supervisory Board in January 2016, 2017 and 2018. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank's Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

Assumptions of valuation of the employee equity benefit schemes

The fair value of particular awards and the assumptions used in their measurement is shown below:

CAP Program	Grant date	Exercise price/stock price at grant date [USD]	Number of eligible employees	Number of options/ shares
1	16.02.2015	50.07	2	250
2	16.02.2016	37.05	1	401

Phantom Shares Program	Grant Date	Exercise price/stock price at grant date [PLN]	Number of eligible employees	Number of options/ shares
1	18.01.2016	72.21	46	20,202
2	16.01.2017	77.31	44	32,840
3	15.01.2018	83.02	43	59,712

	CAP Program	Phantom Shares Program
Period to acquire the title (in years)	25% after each of the following years	40% after 0.5 of a year and 20% after 3 following years, 40% after a year and 12% after 5 following years or 60% after 0.5 of a year and 13.33% after 3 following years, 60% after a year and 8% after 5 following years
Expected average life cycle of the instrument	At the time of rights acquisition	At the time of rights acquisition
Probability of premature termination of employment (annual staff turnover for awarded employees)	0.00%	8.30%
Fair value of one instrument* (in USD)	50.24 (USD)	69.30 (PLN)

Varies depending on the date of exercise

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

	31.12.2018		31.12.2017	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	2,482	46,69	5,850	46.82
Allocated in the period	-	-	-	-

Executed/redeemed/expired in the period	1,831	-	3,368	-
At the end of the period	651	42.05	2,482	46.69

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

	31.12.2018		31.12.2017	
	Number	Weighted average share price [PLN]	Number	Weighted average share price [PLN]
At the beginning of the period	110,631	80.19	123,597	88.00
Allocated in the period	115,643	83.02	115,855	77.31
Executed in the period	111,950	71.55	127,369	68.37
Redeemed/expired in the period	1,570	-	1,452	-
At the end of the period	112,754	79.42	110,631	80.19

On 31 December 2018, the book value of liabilities from the phantom share and CAP programs amounted to PLN 25,635 thousand (31 December 2017: PLN 25,105 thousand). The costs recognized in this respect in 2018 amounted to PLN 8,809 thousand (in 2017: 7,196 including the costs of SOP programs).

49. Risk management

RISK MANAGEMENT ORGANIZATION STRUCTURE AND PROCESS

The Group's activities involve analysis, assessment, approval and management of all kinds of risks associated with its business, arising from the applied business strategy. Such a risk management process is performed at different units and levels of the organization and covers among others: credit risk (including counterparty credit risk, residual risk of accepted collateral and concentration risk), liquidity risk, market risk, and operational risk.

The concept of risk management, taking into account the shared responsibility, is organized at three independent levels (three levels of risk reduction, interchangeably "three lines of defense"):

- Level 1 i.e.: Organizational units responsible for business activities resulting in risk taking and for risk management in the Group's operational activity.as well as risk identification and reporting to second line of defense,
- Level 2 i.e.: risk management in organizational units, independently from the risk management by the first Level, and compliance; organizational unit or employees responsible for establishing standards for the risk management in the scope of risk identification, measurement or estimation, mitigation, control, monitoring and reporting and for overseeing the control mechanisms applied by other organizational units to mitigate the risk – organizational units in Risk Management Sector, Compliance Department, Financial Division Legal Division; Human Resources Division,
- Level 3 i.e.: Internal Audit that provide an independent assessment of risk management processes and internal control system.

In the risk management area, the Supervisory Board of Bank resolves upon:

- approving a strategy of the Group's activity and the rules of prudent and stable risk management, including operational risk strategy;
- approving a general level of the Group's risk appetite within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP),
- approving the fundamental organizational structure of the Group, determined by the Bank's Management Board and matched to the size and the profile of incurred risks.

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

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

- approves the organizational structure of the Group, with well-defined, transparent and consistent roles and responsibilities adequate for the size and risk profile, ensuring that the functions of risk measurement, monitoring and control are independent from risk taking activities;
- defines the Group's Risk's Profile by determining significant types of risk, at the same time providing implementation of processes to manage them and/or allocation of interior equity;
- establishes the principles of prudent and stable risk management which constitute, together with the ICAAP Document, the risk management strategy, including operational risk strategy;
- approves the acceptable risk level ("Overall risk appetite"), within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP).

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

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

Additionally responsible for:

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

Processes of managing of credit, market, operational risks are implemented in Group based upon written policies and principles of identification, valuation, monitoring and risk control accepted by the Management Board or appropriately nominated Committees,
In the risk management area there are following Committees:

- Assets and Liabilities Management Committee (ALCO);
- Risk and Capital Management Committee (RCMC), including Model Risk Commission and Consumer Group (GCB) Risk Commission;
- New Products Committee.

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

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

Risk and Business managers are responsible for developing and implementing risk management policies and practices in their respective business units, overseeing risks in the business units, and responding to the needs and issues of the business units.

Risk management in the Group is supported by a range of IT systems in the following areas:

- obligor and exposure credit risk assessment;
- credit, market and operational risk measurement, reporting and monitoring;
- monitoring and reporting of collateral;
- calculation and reporting of expected credit losses.

Significant Risks

The Group manages all significant risks arising from the implementation of its business strategy. In the process of significant risks identification in 2018, the Management Board considered the following type of risk as significant:

- Credit risk and counterparty risk,
- Liquidity risk,
- Market risk,
- Operational risk,
    - Compliance risk,
    - Model risk,

- Outsourcing risk,
- Information security risk (including cyber risk).

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

Credit risk, including also counterparty credit risk, results from credit exposure or other exposure related to concluding and clearing below listed transactions, and is defined as the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations.
Credit risk arises in many of the Group's business activities, hereinafter "products," including:

- Loans and advances;
- FX and derivatives transactions;
- Securities transactions;
- Financing and handling settlements, including trade (domestic and foreign);
- Transactions in which the Group acts as an intermediary on behalf of its clients or other third parties.

The framework described in the "Credit Risk" section of this document covers different types of exposure, as defined in relevant Credit Policies of the Group.

Additionally, within the risk management system, the Group also applies credit risk mitigation rules (including by accepting collateral, thus mitigating the inherent **residual risk**) and manages **concentration risk**, taking into account material concentration risk factors.

Liquidity risk is the risk that the Group may be unable to meet a financial commitment to a customer, creditor, or investor when due. Liquidity risk is measured in accordance with the applicable law, in particular with the Banking Act, under standards set by the regulator (regulatory liquidity measures) and with internal measures which support liquidity risk management.

Market risk is the risk to profits due to changes in interest rates, foreign exchange rates, commodity prices, and their volatilities. Market risk arises in non-trading portfolios, as well as in trading portfolios. Market risk is measured in accordance with established standards to ensure consistency across businesses and the ability to aggregate risk.

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk.

CREDIT RISK

The main objective in the field of credit risk management is to support the long-term plan for the stable development of the credit portfolio while maintaining its proper quality. Credit risk is minimized through the Group's regulations and implemented controls.

Principles of the Credit Risk Management Policy

The Risk Management unit is responsible for establishing the principles of the Credit Policy for the Corporate Bank, the Credit Policy for the Commercial Bank and credit policies for the Consumer Bank as well as approving other policies and procedures, monitoring credit risk management performance, providing ongoing assessment of the credit risk of the portfolio and approving individually significant credit risk limits. The rules for approving risk are matched with the strategy of the Group, generally accepted risk level, credit portfolio performance and internal control results.

For corporate and commercial clients as well as investment banking activities across the organization, the credit process is based on a range of fundamental policies, including:

- Joint business and independent risk management responsibility for the quality of the credit portfolio and process as well as for credit loss;
- Adherence to portfolio guidelines to ensure diversification and maintain risk/capital alignment;
- Credit authorities system assuming that credit authority can be given to authorized, trained and experienced staff based upon their professional experience and tested qualifications concerning the risk assessment and making credit decisions.
- A minimum of two authorized credit approvers with delegated credit authority required for all significant exposures;
- Dependence of approval level from the risk taken – exposures with a higher risk (including size and risk assessment) require approval at a higher decision-making level;
- Diverse risk rating standards, adequate to every obligor and exposure, including remedial actions;

- Risk rating of every obligor and exposure in a consistent rating process using risk rating models and scorecards (scoring);
- Periodic monitoring of customers' business results and identification of negative changes in their standing which require immediate reclassification of exposure or remedial actions;
- Exceptions to Credit Policies are approved at higher levels within the organization to ensure control over risk policy implementation by higher level managers in accordance with internal Group's normative acts and generally applicable laws and regulations issued by the appropriate regulators.

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

Credit risk in this area is managed by means of:

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

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

Credit risk assessment and rating

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

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

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

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

Credit Risk is measured at a number of levels, including:

- At a facility level, which may include one or more contracts, disposals or transactions;
- At an obligor level, if there are multiple facilities approved for an obligor where the risk associated with an obligor default can be assessed jointly;
- At a group level, considering the group structure of connected clients;
- At a portfolio level where Portfolio Risk Rating is calculated as the average rating of individual facility exposure ratings weighted with the size of exposure.

For ICG and CCB customers credit exposures, the Group uses scoring models of the various level of complexity i.e. depending on the size of customer's portfolio and customer's industry.

For retail credit exposures, the Group uses scoring models developed on the basis of the history of behavior of the Group's customers. Such models analyze the behavior of customers in the Credit Information Bureau, own data as well as customer demographics. The quality of performance of scoring models is reviewed on an ongoing basis and monitored annually. As a result, modifications are made in the model or the credit policy.

Credit risk of the retail credit portfolio is measured based on dedicated scoring models and reporting techniques including an analysis of ratios for new customers and existing portfolios with and without impairment.

The effectiveness of scoring models used in risk assessment processes is monitored regularly with population stability reports, KS (Kolmogorov-Smirnov) test reports and portfolio quality reports (delinquency and loss ratios). Each scoring model is validated annually.

Credit risk monitoring

Risk management units, supported by business units responsible for the cooperation with customers, are responsible for monitoring the probability of obligor default.

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

Exposure monitoring and management at a customer level includes periodic control reports, an early warning system and periodic reviews of the customer's standing.

Monitoring of portfolio performance and identification of portfolio trends include regular management reports and control reports which also support active response to negative signals or trends.

In addition to management information reports analysis, risk managers and business representatives take part in regular round tables regarding the portfolio in order to review business pipelines and discuss the credit issues.

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

Risk mitigation

Credit risk mitigation within the set risk appetite is an ongoing and key element of the Group's risk management processes. It is achieved as described below:

- Customers selection and credit confirmation:
  - Target market and customer selection criteria are determined;
  - Maximum credit exposure against the obligor is determined through obligor limits related to customer risk ratings and/or through risk acceptance criteria;
  - Limits are established and monitored in order to mitigate exposure concentration risk;
  - Robust credit due diligence standards are established and maintained;
  - Credit process standards are established in order to ensure a consistent approach to each segment;
  - Credit documentation standards are applied;
- Collateral is used in order to minimize the risk and to manage residual risk:
  - Establishing acceptable collaterals and their classification in view of regain possibility in case of execution;
  - Setting collaterals in right law's form (documentation standards);
  - Expected collateral structure or credit value in relation to collateral value is determined;
  - The value of collateral on property and equipment is determined by dedicated specialty functions within the Group using external valuation where required;
- Monitoring and early warning system:
  - Credit exposures periodic monitoring and an early warning system are used;
  - Regular inspection of portfolio ensuring identification of adverse tendencies and concentration;
  - Active portfolio management includes implementation of necessary modifications to the credit strategy based on portfolio reviews or stress testing.

Policy of collateral acceptance

Apart from general rules of credit risk mitigation, the Group has defined specific Corporate and Consumer rules of accepting, assessing, establishing and monitoring various types of collateral, including mortgages, guarantees and similar forms of support as well as pledge on fixed assets and assignment of receivables (jointly: "collateral"). These rules serve to minimize the residual risk associated with collateral.

As an additional element limiting this risk, in financing of companies and individuals who pursue business activity, revenues from the customer's ongoing business are the key element of creditworthiness assessment of potential borrowers and the primary source of repayment of debt to the Group.

In order to diversify risks associated with collateral, the Group accepts various types of collateral:

- In the Consumer Bank, the most common type of collateral is residential real estate;
- In the Corporate and Commercial Bank, the following types of collateral are mainly accepted:
  - Guarantees;
  - Cash;
  - Securities;
  - Receivables;
  - Inventory;
  - Real estate;

- Equipment and machines (including vehicles).

Detailed procedures outlining the types of collateral acceptable to the Group and the rules of their establishment and valuation as well as the creation of a special risk unit responsible for the collateral management process allow for the development of appropriate standards for this process, including:

- criteria for acceptance and valuation of collateral;
- documentation standards;
- rules and frequency of collateral value monitoring and updating (including inspections).

In addition, Corporate Banking credit regulations set such parameters as:

- the structure of collateral required for different types of credit receivables;
- the relationship of loan value to collateral value for each type of collateral;
- the desirable structure of the different types of collateral in the credit portfolio.

The Group periodically checks whether the current structure of the collateral portfolio in Corporate Banking is compatible with the objectives and whether the value of the collateral is sufficient.

Within the Corporate Bank, the expected ratio of loan value to collateral value is determined in each case in a credit decision. This ratio is also subject to periodic inspection / monitoring.

The principal type of collateral in GCB is an entry in the land and mortgage register for mortgage-secured loans. The Group also uses bridge insurance to mitigate the risk of the borrower's default between the time of disbursement of a loan and the time of making an entry in the land and mortgage register. The value of collateral is measured at each time on the basis of an expert valuation of real estate commissioned by the Group. Expert valuations are reviewed by an independent valuation division according to valuation guidelines for real estate used as collateral of real estate loans for individuals who are GCB customers. The quality of the division's performance is monitored.

Concentration in credit risk

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

In its credit risk management, the Group takes into account in particular the risk arising from:

- exposure to single entities (including taking into account the effect of exposure to a single clearing house – KDPW CCP on the level of concentration risk exposure, particularly in the event of potential inability to meet the obligations of the clearing house), or related entities capitally or economically (counterparty concentration risk),
- exposure to the same industry, economic sector, similar type of activity or trading similar goods (industry concentration risk)
- exposure to the same geographical region, as well as individual countries (risk of geographical concentration)
- exposure to the entities belonging to the Capital Group of the Bank,
- exposure to counterparties in derivative transactions,
- used credit risk mitigation techniques (exposures secured by the same type of collateral), including due to large indirect credit exposures such as a single issuer (collateral concentration risk),
- specific of Group products/portfolio and exposure tenor,
- individual products, markets or currencies.

General concentration limits are approved on the Management Board level and monitored according to relevant Policy rules, primarily by the Risk and Capital Management Committee. Credit Risk and Business managers define (where appropriate) detailed internal concentration limits, control and reporting frequency and rules of approval for excesses and corrective action plans. Exceeding of established limits is reported, depending on the specific requirements of the Policy, to the approval of appropriate persons, the Risk and Capital Management Committee and the Bank Management Board together with corrective action plans.

In hedge concentration, in accordance with S Recommendation, are settled and controlled appropriate limits of commitments hedged with a mortgage.

Obligor exposure concentration risk

The Group limits the concentration of its exposure to a single customer or a group of customers with common ownership or organization. As at 31 December 2018, the Group's exposure in bank portfolio transactions with groups of customers whose aggregate exposure exceeded 10% of the Group's equity (as defined below in this report) amounted to PLN

8,792,580 thousand, i.e., 177% of equity (31 December 2017: PLN 7,286,844 thousand, i.e., 151%). In 2018 and 2017 the Group complied with the provisions on limits of concentration of exposure.

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

PLN'000	31.12.2018			31.12.2017		
	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure
GROUP 1	799,072	202,774	1,001,846	828,101	115,658	943,759
CLIENT 2	1,000,000	-	1,000,000	1,000,000	-	1,000,000
CLIENT 3	310,424	628,978	939,402	251,522	475,980	727,502
GROUP 4	332,064	472,010	804,074	261,317	574,317	835,634
CLIENT 5	263,100	486,900	750,000	191,400	558,600	750,000
GROUP 6	537,517	180,813	718,330	557,053	83,530	640,583
GROUP 7	107,523	521,365	628,888	18	618,348	618,366
GROUP 8	369,570	253,147	622,717	140,852	150,639	291,491
CLIENT 9	523,638	81,562	605,200	396,000	205,185	601,185
CLIENT 10	600,000	-	600,000	600,000	-	600,000
GROUP 11	-	-	-	74,439	495,376	569,815
Total	**4,842,908**	**2,827,549**	**7,670,457**	**4,300,702**	**3,277,633**	**7,578,335**

**Excluding investment in shares and other securities.*
***The Group is understood as a capital group consisting of entities in relation to which the Capital Group of Bank Handlowy w Warszawie S.A. has exposures.*

The limits of the Group's maximal exposure are determined in the Grouping Law Bill from 29 August 1997 and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Regulation No 575/2013). When keeping conditions determined in Regulation 575/2013, it is allowed for the Group to maintain an overdraft of liabilities level over limits determined in paragraph 71 of the Grouping Law Bill only in the case of liabilities resulting from operations rated in trade portfolio. Own funds for determining limits of exposure purposes were determined according to Regulation No 575/2013.

As at 31 December 2018, the Group had an exposure to one entity exceeding the statutory exposure concentration limits. The excess exposure resulted from trade portfolio transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's total capital requirement as at 31 December 2018.

*Concentration of exposure in individual industries**

Given that there is a large diversity of customers representing individual industries, the table below shows aggregate data for the Group's gross exposure to the industrial sectors.

Sector of the economy according to NACE*	31.12.2018		31.12.2017	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,695,369	17.5%	4,458,077	18.3%
Financial intermediation, excluding insurance and pension funds	3,385,386	12.6%	3,039,423	12.5%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,760,531	10.3%	2,645,822	10.8%
Retail trade, excluding retail trade in vehicles	1,084,312	4.0%	825,311	3.4%
Production of food and beverages	1,065,354	4.0%	1,071,761	4.4%
Activities of head offices; consulting related to the management	1,028,293	3.8%	592,729	2.4%
Metal ore mining	939,402	3.5%	727,502	3.0%
Production of metal goods, excluding machines and equipment	929,839	3.5%	657,375	2.7%
Production and processing of coke and petroleum products	893,827	3.3%	884,023	3.6%
Production of motor vehicles, trailers and semi-trailers, excluding motorcycles	862,454	3.2%	633,978	2.6%
10 business sectors	**17,644,767**	**65.7%**	**15,536,001**	**63.7%**
Other sectors	**9,209,893**	**34.3%**	**8,855,908**	**36.3%**
Total	**26,854,660**	**100.0%**	**24,391,909**	**100.0%**

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including Groups), based on NACE Revision 2 (The Statistical Classification of Economic Activities in the European Community).*

Gross amounts due from customers and Groups by type of business

PLN'000		31.12.2018	31.12.2017
Gross amounts due from economic entities and Groups			
Financial		3,610,978	2,891,771
Production		4,282,171	4,042,489
Services		4,795,159	4,529,653
Other		3,730,135	2,718,123
		16,418,443	**14,182,036**
Gross amounts due from individual customers		**7,535,018**	**7,092,665**
	(see Note 18, 23)	**23,953,461**	**21,274,701**

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 23.

Determination of Expected Credit Loss

The Group makes impairments for expected credit losses, for all financial assets, according to developed internal rules and methodologies for calculating impairments.Expected credit loss impairments as per IFRS 9 are established with exposure classification into one of the 3 Stages:

- Stage 1: Credit exposures that have not had a significant increase in credit risk since initial recognition
  - For these assets, a 12-months ECLs are recognized (representing the portion of lifetime expected credit losses that result from default events that are possible within 12 months after the reporting date),
- Stage 2: Credit exposures that have experienced a significant increase in credit risk since initial recognition, but for which the exposure is not yet defaulted
  - For these assets, a lifetime ECLs are recognized,
- Stage 3: Credit exposures with credit loss that has already been suffered on the assets
  - For these assets, ECL is established as for defaulted assets.

Assignment of the exposure to the Stage takes place, depending on the approach to management over the client (individual vs. group approach), taking into account the wide range of information obtained as part of standard risk management processes (including the Early Warning process) regarding both current and future events, including macroeconomic factors and the number of days past due.

The Group aggregates financial instruments in order to measure expected credit losses in terms of product in the area of retail banking and on a segmented basis for a homogeneous portfolio of micro-enterprises with a minimal share in total amounts due from the Group.

Overdue payments for more than 30 days for financial assets are taken into account by the Group in identifying the occurrence of a significant increase in credit risk. In the case of credit exposures from the retail banking area, the overdue criterion of over 30 days is a direct trigger for identifying a significant increase in credit risk. For credit exposures in the area of institutional banking, overdue by more than 30 days is taken into account when assessing the potential occurrence of a significant increase in credit risk, while these are factors supporting the assessment and have an indirect character.

The Group identified overdue payments of financial assets for more than 30 days and the capability of this measure to indentify significant increase in credit risk. The results of analysis indicated that extended review of customer exposure as part of periodic credit processes and in his results the internal classification is the measure more adequate in relation to days overdue. The process of overdues of Stages for institutional banking portfolio also confirmed this assumption. The analysis of 30 days overdue payments indicated the lack of correlations with abovemensioned credit risk because of the arrears on non-credit products in particular.

The Group applies the general principle that the creditor's default occurs when one or both of the following events occur:

a) delay in the debtor's repayment of any material loan obligations to the Group is 90 days or more,

b) it is unlikely that the debtor fully fulfills his credit obligations towards the Group, without the institution having to undertake activities such as collateral execution.

In order to assess if there has been an increase in credit risk, for Institutional Banking client, Group periodically, as per internal classification process and ongoing monitoring process, analyses changes in risk of default by comparing the current assessment of default with the assessment of default in the initial recognition.

Assessment of change in risk of default for given credit exposure is conducted during internal classification process and monitoring process and include:

- Qualitative indicators (including Early Warning System),
- Quantitative information (including among others),
- Occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, (assuming that those changes does not imply deterioration in future payment flows).

In order to assess whether there was a significant increase in credit risk for the Retail Banking portfolio, the Group periodically, as part of the analysis process changes the default risk for a given credit exposure, compares the current assessment of default risk for the credit exposure, with the risk of default assessment performed by at the time of initial recognition. In addition, quality-based premises are included on the current length of the credit product overdue period, the soft restructuring activities carried out and the fact that information about the probability of default is not available.

The expected loss, which is the basis for determining the level of the provision, is determined throughout the lifetime of the exposure. In the case of installment exposures, this is the period to the contractual maturity date. For revolving exposures, the contractual maturity is not specified, in replacement of the so-called behavioral maturity resulting from the empirical estimation of the life of the credit product.

Write-offs for expected credit losses are calculated on the basis of statistical models for groups of assets combined in portfolios with common credit risk features. In the financial statements, the Group adjusts the value of credit exposures on the amount of impairment losses on expected credit losses.

In the area of institutional banking, the main sources of parameters included in the methodology of expected credit losses ('ECL') are the results of internal customer assessment processes and the results of loan models.

- The rate of impairment is derived from the client's rating determined based on internal rating models. The ECL methodology describes the process of applying existing migration ratings, expected in a given macroeconomic scenario, to migration schedules. In this way, in the following forecast periods, the probability of migration to a given rating range is obtained.
- The value of the LGD parameter results directly from the dedicated model for impaired clients.
- The exposure value for subsequent forecast periods is based on available repayment schedules as well as (for renewable products) on the expected change in exposure described by the value of the CCF parameter. The basis for estimating this parameter was internal data on amounts used by customers before the Group identified impairment of value.
- The assignment to the stage is based on the customer assessment process used in the Group to manage the client. This process includes both quantitative factors (e.g. customer rating) and a number of qualitative factors (e.g. Early Warning Signals).
- The maturity dates adopted by the Group result directly from agreements with customers and periods in which the Group is exposed to possible risks.

In the area of retail banking, the basis of parameters included in the ECL methodology are the existing internal models of the client's creditworthiness assessment in the Group, information about the stage of debt collection proceedings and information from the Group's data warehouse.

- The rate of impairment is the submission of a number of models of customer creditworthiness assessment, connected to each other by process called integration logic. The ECL methodology macroeconomic transforms the results of integration logic so that the result reflects the expected changes in the economy. The parameters thus obtained are then applied to the loss vectors during the life of the product, estimated on the basis of historically observed loss rates.
- Recovery value vectors are the result of the analysis of the amount of historically collected receivables for homogeneous populations. The populations were segmented against similar features such as product type, time from write-down, type of restructuring carried out or historically observed repayments.
- The value of the EAD parameter is based on installment products on the expected repayment schedules generated based on the length of the contract and the interest rate on the product. For renewable products, EAD is based on the internally estimated CCF vector, which reflects changes in the exposure volume expected in subsequent periods.

In retail area of the Group is used, except from the 30 days criterion of arrears and foreborne categories, the quantitative criterion is applied - analysis of the change in PD level since the exposure was created. In accorance with the standard, the Group doos not use the a fixed threshold above which an increase in risk would automatically be considered significant. It results from the fact that the same increse of PD in absolute terms would be more significant for exposures with lower initial risk than for those with the higher initial risk. So in Group there is used the designed model which target is to setting a threshold above which an increase in risk will be considered to be significant. In order to determine the relative growth, the Group uses a variable being the quotient of the probability of default on the current reporting date and the contingent probability calculated for the same period at the time of initial recognition. A threshold is defined as the cut-off point, where the probability of a default event occurring when the value of an explanatory variable increases is maximised.

At each balance sheet date, the Group assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets.

A financial asset or a group of financial assets lost their value and the impairment loss was incurred only when there is objective evidence of impairment resulting from one or more events taking place after the initial recognition of the asset (event causing the loss) and the event (or events) causing a loss has an impact on the expected future cash flows resulting from a financial asset or a group of financial assets whose reliable estimation is possible.

In the institutional banking area, materialization of credit exposure value loss takes place if there is an objective evidence of impairment, which can be a result of, among others, events as below:

- Significant financial difficulties of the client, which are described in detail in ICG / CCB / Micro Credit Procedures;
- Reduction of the client credit rating by an accepted by the Bank External Credit Assessment Institution[1];
- Breach of contract conditions, e.g. delay in interest or principal payments;
- Occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, granting permission for emergency restructuring of credit exposure, if it might result in decreasing financial requirements, reduction of financial liabilities by redeeming a significant part of the principal, interest or, where applicable, fees or deferring their repayment or payment (forborne exposure);
- high likelihood of bankruptcy of the client or obtaining information about the opening of bankruptcy proceedings, appearance by the debtor for declaration of bankruptcy or for similar protection or putting the debtor in bankruptcy or granting him similar protection if it would allow him to avoid or delay repayment of credit obligations;
- request of the Group to initiate enforcement proceedings against the client;
- severe domestic or local economic conditions that may be related to the default of exposures;
- delay in payment equal to 90 days or more.

and other events that may have an impact on the estimated future cash flows from the financial asset that can be reliably estimated.

Objective evidence of impairment of a financial asset or a group of assets in the Retail Banking area includes the fulfillment of even one of the following conditions by any of the customer's exposures:

- occurrence of delays in repayment of principal and interest , the minimum amount to be paid, commission or exceeding the permitted limit. For the purpose of recognizing impairment, it is assumed that the delay in repayment is equal to or exceeds 90 days at the moment of calculating the write-down (regardless of the amount of exposure and the amount of overdue);
- granting modifications to the terms of the agreement (restructuring), as a result of which the current value of cash flows falls below the book value before the modification;
- termination of the contract for reasons other than a delay in the repayment of mortgage products;
- occurrence of qualitative circumstances:
  - death,
  - bankruptcy,
  - permanent disability or serious illness,
  - fraud,
  - obtaining information about initiating bankruptcy proceedings of the client or announcing bankruptcy by the client,
  - impairment or threat of collateral impairment,
  - the client's stay in custody or prison,
  - partial capital write-off,
  - agreement termination,
  - the Group's request to initiate enforcement proceedings against the client.

In the case of clients who do not meet the restructuring criteria, and in particular, for which the legal path has been implemented (bankruptcy, enforcement, court dispute) without the prospects of returning the repayment formula from the client's core operations, the debt collection process is carried out and the receivables are written off. The main goal of this process is to maximize the amount of outstanding exposures recovered by the Group. In the debt collection process, the Group will develop a cooperation formula with the client, in the course of which the Group's activity is not limited only to legal actions, but also, if possible, ongoing cooperation. In the event that the repayment of the exposure is jeopardized due to the poor financial standing of the debtor or by the transfer of assets beyond the scope of recovery, the exposures can be sold in exceptional cases.

The Group uses the macroeconomic scenarios including explanatory variables in models used to measure impairment. Scenarios are prepared by the Chief Economist of the Group min. once a quarter in the three years horizon in division into quarters (based scenario with 60% weight and positive and negative variation from scenario with 20% weight).

In the area of institutional banking, the Group divided the loan portfolio into industries in terms of their sensitivity to macroeconomic conditions, identified macroeconomic variables that best explained the historical changes in credit quality and analyzed the dependence on macroeconomic factors using statistical methods. Finally, the Bank Group has built a model for each of the established industry sensitivity classes allowing for the dependence of the coefficient determining the level of client migration between ratings from these factors.

Macroeconomic scenarios in the area of institutional banking icluding two variables:

- the reference rate NBP,
- annual amandment of index WIG20,

[1] Below risk level corresponding to internal 7- rating (i.e. to CCC- for Standard & Poors, Caa3 Moody's)

However retail banking uses three variables in modeling the expected credit losses:
- unemployment rate,
- unemployment rate „BAEL",
- annual amandment of index WIG.

In the area of Retail Banking, at the level of homogeneous product portfolios, the Group, using statistical methods, built equations making the level of annual loss rates dependent on macroeconomic factors. The models allow for dynamic shaping of the provision for impairment losses depending on the expected changes in the economy.

Scenarios and macroeconomic variables are updated on a quarterly basis.

As part of the assessment of the adequacy of the methodology used to determine impairment and provision, the Group regularly, at least annually, carries out an analysis to verify to which extent the revaluation write-offs were reflected in actual losses. In addition, the models used for determining reserves are subject to evaluation by an independent Model Validation Office.

The Group recognizes and manages counterparty credit risk in transactions in financial instruments based on internal limits for pre-settlement and settlement engagement. The exposures also include credit ratings.

The table below presents the maximum exposure of the Group to credit risk:

PLN'000	Note	**31.12.2018**	**31.12.2017***
Gross receivables due from the Central Bank	17	6,850,129	30,552
Gross receivables due from banks	18	1,337,887	837,885
Gross receivables due from institutional customers**		15,080,556	13,344,151
Gross receivables due from individual customers***		7,535,018	7,092,665
Debt securities held-for-trading	19	931,172	1,143,908
Derivative instruments	19	1,282,677	1,018,132
Debt investment financial assets measured at fair value though other comprehensive income****	20	14,241,363	17,439,439
Other financial assets	28	160,823	263,119
Contingent liabilities granted	41	16,797,326	16,816,482
		64,216,951	**57,986,333**

** As at January 1, 2018, the Group applied IFRS 9 "Financial Instruments" for the first time and did not use the option of converting data relating to earlier periods.*
*** As at December 31, 2018, the value of collateral diminishing the maximum exposure to credit risk for receivables from institutional clients amounted to PLN 2,708,768 thousand (31 December 2017: PLN 2 279 820 thousand).*
**** As at December 31, 2018, the value of collateral to reduce the maximum exposure to credit risk for receivables from individual clients amounted to PLN 1 676,541 thousand. PLN (31 December 2017: PLN 1 481 839 thousand).*
***** Corresponds to the item 'Debt securities available for sale' according to IAS 39.*

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 22.

Modification of financial assets

The impact on value of financial assets, whose cash flows resulting from the contract were modified however were not discontinued recognition, as at 31 December 2018 amouted to PLN 36 thousand and net modification loss in 2018 amounted to PLN 4 thousand.

Gross value of financial assets, that since the start of recognition were modified at the moment, when the provision for losses were measured at amount corresponding to expected credit loss throughout the life period, and in case of provisions for losses was affected in 2018 at amount corresponding to 12 months expected credit losses as at December 31, 2018 amount to PLN 63 thousand.

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

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

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

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

The internal risk ratings are received in the complex credit assessment's process, which consists of rating models and methodologies, additional corrections resulting among others from the acquired support and the security, and all the defined processes used in order to get risk ratings.

The risk rating defines the probability of breach of contract by the debtor within the 1 year period. Ratings from 1 to 4-

inclusive are treated as the equivalent of ratings at investments levels of external credit rating agencies, which implies that they indicate a low or medium level of credit risk. Ratings below 4- indicate increased credit risk, wherein the rating 7 means high credit risk and low ability to service debt obligations, even in favorable macroeconomic conditions.

Commitment due to customers in terms of credit risk:

PLN '000	31.12.2018		
	Receivables from institutional customers	**Receivables from individual customers**	**Receivables from banks**
Impaired receivables (Stage 3)			
Gross amount	**348,039**	**378,450**	**-**
Impairment write-downs	(244,189)	(291,485)	-
Net amount	**103,850**	**86,965**	**-**
Not impaired receivables (Stage 2)			
By risk rating			
Risk rating 1-4-	56,158	-	2
Risk rating +5-6-	632,681	-	-
Risk rating +7 and greater	143,279	-	-
By delinquency			
No delinquency	-	657,366	-
1-30 days	-	105,640	-
31-90 days	-	46,976	-
Gross amount	**832,118**	**809,982**	**2**
Impairment write-downs	(16,387)	(58,389)	-
Net amount	**815,731**	**751,593**	**2**
Not impaired receivables (Stage 1)			
By risk rating			
Risk rating 1-4-	11,576,050	-	822,928
Risk rating +5-6-	2,324,349	-	514,957
By delinquency			
No delinquency	-	6,140,959	-
1-30 days	-	205,627	-
31-90 days	-	-	-
Gross amount	**13,900,399**	**6,346,586**	**1,337,885**
Impairment write-downs	(28,882)	(27,228)	(3,910)
Net amount	**13,871,517**	**6,319,358**	**1,333,975**
Total gross value	**15,080,556**	**7,535,018**	**1,337,887**
Impairment write-downs	(289,458)	(377,102)	(3,910)
Total net value	**14,791,098**	**7,157,916**	**1,333,977**

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 23.

The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 31 December 2017:

PLN '000	31.12.2017*		
	Receivables from institutional customers	**Receivables from individual customers**	**Receivables from banks**
Impaired receivables			
Individual receivables			
Gross amount	**378,937**	**10,898**	**-**
Impairment write-off	(257,059)	(6,633)	-
Net amount	**121,878**	**4,265**	**-**

PLN '000	31.12.2017*		
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks
Portfolio receivables			
Gross amount	**23,350**	**309,417**	**-**
Impairment write-off	(17,723)	(227,000)	-
Net amount	**5,627**	**82,417**	**-**
Not impaired receivables			
by risk rating			
Risk rating 1-4-	9,715,661	-	806,362
Risk rating +5-6-	3,070,022	-	31,523
Risk rating +7 and greater	156,181	-	-
by delinquency			
no delinquency	-	6,437,196	-
1–30 days	-	283,109	-
31–90 days	-	52,045	-
Gross amount	**12,941,864**	**6,772,350**	**837,885**
Impairment	(17,462)	(61,906)	(1,111)
Net amount	**12,924,402**	**6,710,444**	**836,774**
Total net amount	**13,051,907**	**6,797,126**	**836,774**

** As at January 1, 2018, the Group applied IFRS 9 "Financial Instruments" for the first time and did not use the option of converting data relating to earlier*

Structure of derivatives in terms of credit risk:

PLN '000	31.12.2018			31.12.2017		
	Transactions with institutional customers	Transactions with individual customers	Transactions with banks	Transactions with institutional customers	Transactions with individual customers	Transactions with banks
Derivatives by risk rating						
Risk rating 1-4-	579,490	5,006	676,910	234,724	4,632	753,408
Risk rating+5-6-	7,178	-	14,088	25,090	-	2
Risk rating +7 and greater	5	-	-	276	-	-
Total	**586,673**	**5,006**	**690,998**	**260,090**	**4,632**	**753,410**

The classification of exposures in the portfolio of debt securities held for trading and portfolio of debt securities measured at fair value through other comprehensive income by ratings agency Fitch is presented below:

PLN '000	31.12.2018		31.12.2017	
	Debt securities held-for-trading*	Debt securities measured at fair value though the income statement*	Debt securities held-for-trading	Debt securities available-for-sale
Issuer rating by Fitch agency				
A (including: from A- to AAA)	931,172	14,241,363	1,143,908	17,439,439
Total	**931,172**	**14,241,363**	**1,143,908**	**17,439,439**

Structure of the granted contingent liabilities from the credit risk point of view as at December 31, 2018:

PLN '000	31.12.2018		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Contingent liabilities granted (Stage3)	**30,988**	**1,401**	**-**
by risk rating			
Risk rating +7and greater	30,988	**-**	-

Contingent liabilities granted (Stage 2)	**410,128**	**1,095,455**	**-**
by risk rating			
Risk rating 1-4-	17,754	-	-
Risk rating+5-6-	380,297	-	-
Risk rating +7and greater	12,077	-	-
Contingent liabilities granted (Stage 1)	**10,004,762**	**4,798,669**	**455,923**
by risk rating			
Risk rating 1-4-	8,424,766	-	449,124
Risk rating+5-6-	1,579,996	-	6,799
Total	**10,445,878**	**5,895,525**	**455,923**

Structure of the granted contingent liabilities from the credit risk point of view as at December 31, 2017:

PLN '000	**31.12.2017***	
	Liabilities due to institutional customers	**Liabilities due to banks**
Granted contingent liabilities by risk rating		
Risk rating 1-4-	7,188,531	383,555
Risk rating+5-6-	2,696,078	6,326
Risk rating +7and greater	58,102	-
Total	**9,942,711**	**389,881**

* As at January 1, 2018, the Group applied IFRS 9 "Financial Instruments" for the first time and did not use the option of converting data relating to earlier periods.

"Forbearance" practices

Forborne exposures are identified in the Group within credit risk management. Bank takes into account "forborne" exposures according to the reporting requirements under the EBA Technical Standards EBA/ITS/2013/03.

The Group considers as "forborne" exposures, where the Group grants debtor experiencing financial difficulties preferential financing conditions (i.e. on non-market conditions), which would not have been considered in a different situation. Preferential financing conditions are considered situations in which for example the yield of the modified facility is lower than the contractual yield prior to the restructuring and/or the yield on the modified loan is below a market yield for the relevant tenor and credit risk.

The extent to which the financing conditions are changed is determined individually for each debtor in question. In particular, these activities include:

- receipt of assets;
- granting a new or restructured facility in partial or full satisfaction of a facility;
- modification of the terms of the existing facility, including rescheduling of future payments (e.g. extension of financing tenor), change of interest rate or methods of repayment, reduction of amount to be repaid (principal or accrued interest).

The process of assigning "forborne" status for exposures is closely related to the credit risk management process, including the impairment recognition process for exposures.

In terms of institutional clients,, the Group recognizes "forborne" status for exposures with identified impairment, which entails the need to write off some of the receivables.

In terms of retail expsure, the "forborne" status may refer to both the exposures: from the impaired portfolio as well as from the portfolio without any impairment. As "forborne" without impairment are recognized by the Group exposures, where restructuring activities were applied, but change of financing conditions has not implied any deterioration of future payment streams. In such cases the change into "forborne" status is not an evidence of exposure's impairment.

The Group assumes, that exposures will remain in"forborne" status until they are entirely paid off.

Exposures with modified conditions according to forbearance rules (forborne exposures) are subject to regulatory and internal reporting.

Exposure values in the "forborne" status as at December 31, 2018:

PLN '000	As of 31.12.2018
Receivables without recognized impairment,	21,889,085
Receivables without recognized impairment (Stage1), including	20,246,985
non-financial sector entities	18,098,779
Institutional customers	11,752,193
Individual customers	6,346,586
Receivables without recognized impairment (Stage2), including	1,642,100
non-financial sector entities	1,642,100
Institutional customers	832,118
Individual customers	809,982
Receivables with recognized impairment(Stage 3), including:	726,489
non-financial sector entities	726,489
Institutional customers, including:	348,039
„forborne"	78,281
Individual customers, including:	378,450
„forborne"	19,791
Total gross amount, including:	**22,615,574**
non-financial sector entities	20,467,368
Institutional customers, including:	12,932,350
„forborne"	78,281
Individual customers, including:	7,535,018
„forborne"	19,791
Impairment write-off	**(666,560)**
On „forborne" receivables	(59,555)
Total net amounts due from customers, including:	**21,949,014**
„forborne" receivables	38,517

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 23.

Exposure values in "forborne" status as at 31 December 2017:

PLN '000	As of 31.12.2017*
Receivables without recognized impairment, including	19,714,214
non-financial sector entities	17,718,859
Institutional customers	10,946,509
Individual customers	6,772,350
Receivables with recognized impairment, including:	722,602
non-financial sector entities	705,466
Institutional customers, including:	385,151
„forborne"	77,706
Individual customers, including:	320,315
„forborne"	19,556
Total gross amount, including:	**20,436,816**
non-financial sector entities	18,424,326
Institutional customers, including:	11,331,661
„forborne"	77,706
Individual customers, including:	7,092,665
„forborne"	19,556
Impairment write-off	**(587,783)**
On „forborne" receivables	(58,855)
Total net amounts due from customers, including:	**19,849,033**
„forborne" receivables	38,407

* As at January 1, 2018, the Group applied IFRS 9 "Financial Instruments" for the first time and did not use the option of converting data relating to earlier periods.

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Group may not be able to meet its financial commitments to customers or counterparties when due.

The objective of liquidity risk management is to ensure that the Group can meet all commitments to customers when due and to secure the liquidity necessary to clear all money market transactions when due.

Liquidity risk management is based on:

- Applicable law, in particular on the Banking Law;
- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable risk management of the Group as well as general risk levels approved by the Supervisory Board of the Bank;

taking into account the best market practice.

The ultimate responsibility for ensuring that the Group operates under approved liquidity risk limits lies within the Management Board of the Bank, and ongoing market risk management is performed by the:

- Member of the Management Board responsible for Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit;
- Persons delegated to risk management in the Group's entities.

Liquidity management

The objective of liquidity risk management is to ensure that the Bank and Group's entities have adequate access to liquidity in order to meet its financial obligations when due, including under extreme but probable stress conditions.

The Group analyses and manages liquidity risk in several time horizons while distinguishing current, short-, mid- and long-term liquidity, to which appropriate risk measurement methods and limits apply. The adopted measures and limits aim to limit the excessive concentration in terms of the balance sheet structure and sources of financing.

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

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

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

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

Liquidity management with accordance to "Risk management principals" in Group entities is a part of the entities, management board responsibilities. ALCO is the supervisor of the Group's entities liquidity supervision.

In 2018 the Group has not implemented any changes significant in liquidity risk management processes, procedures, systems and policies.

Funding and Liquidity Plan

The Head of the Financial Markets and Corporate Banking Sector is responsible for preparing an annual Group's Funding and Liquidity Plan ("Plan") for the Group and obtaining the ALCO's approval for the Plan. The Plan addresses all funding or liquidity issues resulting from business plans, especially in the customer deposits and loans area, as defined in annual budgets of particular business entities, as well as any material changes in regulatory requirements and market dynamics.

Liquidity risk management tools

The Group measures and manages liquidity risk by applying both external regulatory measures and additional internal liquidity measures.

The supervisory liquidity measures

The supervisory liquidity measures M1-M4 i LCR were as follows:

	31.12.2018	31.12.2017	Change
M1 - Short-term liquidity gap (PLN)	6,517,776	8,380,500	(1,862,724)
M2 - Short-term liquidity ratio	1.18	1.37	(0.19)
M3 - Coverage of illiquid assets with regulatory capital	6.08	9.78	(3.70)
M4 - Coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	1.44	1.54	(0.10)
LCR*	168%	145%	23 pp

** as a result of the repeated verification of comparative data as of 31.12.2016 presented in the semi-annual report for the first half of 2017, the LCR ratio was changed*

Internal liquidity risk management tools

In addition to the regulatory liquidity measures, the Bank's Group applies a range of liquidity risk management tools including:

- Gap analysis –MAR/S2;
- Stress scenarios;
- Liquidity ratios;
- Market Triggers;
- Significant Funding Sources;
- Contingency Funding Plan.

Stress scenarios

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

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

- Concentration event;
- Highly Stressed Market Disruption ("S2") – serious disruptions of financial markets;
- Local market event.

Contingency Funding Plan

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

The Contingency Funding Plan defines:

- Circumstances / symptoms of contingency events;
- Responsibilities for executing the action plan;
- Sources of liquidity, and in particular the principles of maintenance of a liquid assets portfolio to be used in the case of a liquidity contingency;
- Rules for assets disposal and balance sheet restructuring;
- Procedures for restoring customer confidence.

The levels of the cumulative liquidity gap in stress conditions and the level of liquid assets as at 31 December 2018 and 31 December 2017.

The cumulative liquidity gap as at 31 December 2018 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	21,150,966	424,855	928,484	-	26,800,409
Liabilities	9,027,056	4,859,475	20,028	-	35,398,155
Balance-sheet gap in the period	12,123,910	(4,434,620)	908,456	-	(8,597,746)
Conditional derivative transactions – inflows	22,005,560	9,318,244	10,587,062	7,196,021	17,354,183
Conditional derivative transactions – outflows	21,989,606	9,329,708	10,812,157	7,219,383	17,308,085
Off-balance-sheet gap in the period	15,954	(11,464)	(225,095)	(23,362)	46,098
Potential utilization of credit lines granted	693,802	861,242	591,621	-	(2,146,665)
Cumulative gap	11,446,062	6,138,736	6,230,476	6,207,114	(197,869)

The cumulative liquidity gap as at 31 December 2017 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	16,614,355	339,546	430,224	267,540	25,385,931
Liabilities	7,108,604	4,079,663	41,611	1,630	31,806,088
Balance sheet gap in the period	**9,505,751**	**(3,740,117)**	**388,613**	**265,910**	**(6,420,157)**
Conditional derivative transactions – inflows	12,417,617	4,304,596	6,233,162	4,916,266	15,796,336
Conditional derivative transactions – outflows	12,595,697	4,368,368	6,280,209	5,114,049	15,629,002
Off-balance-sheet gap in the period	**(178,080)**	**(63,772)**	**(47,047)**	**(197,783)**	**167,334**
Potential utilization of credit lines granted	693,017	657,996	191,768	-	(1,542,781)
Cumulative gap	**8,634,654**	**4,172,769**	**4,322,567**	**4,390,694**	**(319,348)**

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

PLN'000	31.12.2018	31.12.2017	Change
Liquid assets, including:	22,229,407	18,805,370	3,424,037
nostro account in NBP and stable part of cash	7,056,872	222,023	6,834,849
debt securities held-for-trading	,931,172	1,143,908	(212,736)
debt financial assets measured at fair value through other comprehensive income*	14,241,363	17,439,439	(3,198,076)
Cumulative liquidity gap up to 1 year	6,230,476	4,322,567	1,907,909
Coverage of the gap with liquid assets	Positive gap	Positive gap	

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

As at 31 December 2018

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	30	1,402,233	1,384,456	2,683	15,000	43	51
Financial liabilities held-for-trading							
Short positions in financial assets	19	348,130	348,130	-	-	-	-
Amounts due to customers, including:	31	**38,334,345**	**36,821,651**	**1,054,500**	**436,919**	**21,202**	**74**

Deposits from financial sector entities	31	7,040,000	7,037,511	396	2,072	-	21
Deposits from non-financial sector entities	31	31,057,448	29,633,784	1,040,283	363,370	19,959	53
Other liabilities	31	236,897	150,356	13,821	71,477	1,243	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	1,404,897	31,043	36,410	55,593	864,397	417,454
Unused credit lines liabilities	41	14,023,057	11,133,577	7,008	578,036	2,132,056	172,380
Guarantee lines	41	2,636,600	2,636,600	-	-	-	-
		58,149,263	**52,355,457**	**1,100,601**	**1,085,548**	**3,017,698**	**589,959**
Derivatives settled on a gross basis							
Inflows		65,735,761	22,003,732	9,558,726	10,313,851	15,521,711	8,337,741
Outflows		65,529,703	21,987,856	9,546,774	10,300,415	15,373,789	8,320,869
		206,058	**15,876**	**11,952**	**13,436**	**147,922**	**16,872**

As at 31 December 2017

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	31	**1,568,376**	**1,512,790**	**6,635**	**42,594**	**6,314**	**43**
Financial liabilities held-for-trading							
Short positions in financial assets	19	-	-	-	-	-	-
Amounts due to customers*, including:	32	**32,136,699**	**30,838,063**	**903,453**	**363,892**	**31,219**	**72**
Deposits from financial sector entities	32	4,853,148	4,673,860	174,300	4,957	12	19
Deposits from non-financial sector entities	32	27,092,005	26,060,623	675,604	325,734	29,991	53
Other liabilities	32	191,546	103,580	53,549	33,201	1,216	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	749,655	11,601	32,601	62,037	406,488	236,928
Hedging derivatives	20	**50,191**	**-**	**-**	**-**	**49,392**	**799**
Unused credit lines liabilities	41	**14,292,534**	**11,380,710**	**2,174**	**176,805**	**2,231,647**	**501,198**
Guarantee lines	41	**2,355,965**	**2,355,965**	**-**	**-**	**-**	**-**
		51,153,420	**46,099,129**	**944,863**	**645,328**	**2,725,060**	**739,040**
Derivatives settled on a gross basis							
Inflows		42,812,185	12,660,817	4,245,328	6,358,651	12,219,978	7,327,411
Outflows		43,030,215	12,663,748	4,310,234	6,370,062	12,391,474	7,294,697
		(218,030)	**(2,931)**	**(64,906)**	**(11,411)**	**(171,496)**	**32,714**

** In 2017, margins' presentation of was changed by transferring them from the term Deposits to Other Liabilities, comparative data were changed accordingly.*

MARKET RISK

The processes and organization of market risk management

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

The objective of market risk management is to ensure that the extent of risk accepted within the Group corresponds to the level acceptable to the shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Group. The adopted market risk measures and limits aim to prevent excessive concentration of exposure to a single risk factor or a group of related risk factors, as well as to determine the overall maximum level of risk taken in the trading or banking book. Market risk management in the Group is based on:

- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable risk management of the Bank as well as general risk levels approved by the Supervisory Board of the Bank;

taking into account best market practice.

The ultimate responsibility for ensuring that the Group operates under approved market risk exposure limits lies within the Management Board of the Bank, and ongoing market risk management is performed by the:

- Member of the Management Board responsible for Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit;
- Heads of risk-taking business units;
- Persons delegated to risk management in Group entities.

Market risk management

Scope of risk

Market risk management applies to all portfolios generating income exposed to the negative impact of market factors including interest rates, foreign exchange rates, equity prices, commodity prices and the parameters of their volatility. Two types of portfolios have been defined for the purpose of market risk management: trading portfolios and bank portfolios.

The trading portfolios include transactions in financial instruments (balance-sheet and off-balance-sheet instruments) expected to generate income owing to a change in market parameters over a short period. The trading portfolios include balance-sheet items such as debt securities held-for-trading, i.e., debt securities acquired to be further traded and meeting pre-defined liquidity criteria, as well as all derivative instrument positions broken down into portfolios acquired purely for trading and transactions executed in order to provide an economic hedge of bank portfolio positions. The trading portfolios are valued directly at market prices or using market pricing-based valuation models. The trading portfolio operations are performed by the Bank's Financial Markets and Corporate Banking Sector in respect of interest rate risk portfolios and FX risk portfolios. The trading portfolio also includes options, manly foreign exchange options and interest rate and optional structures being a reflection of economic nature and risk resulting from products offered to customers of the Group. In this area, the Group concludes transactions in a way which ensures concurrent (at each time and immediate) conclusion of an opposite transaction with the same parameters and, in consequence, the option portfolio does not generate open exposition of market risk. The only item related to the conclusion of option transactions which is reflected in market risk measurement, and in particular in foreign exchange risk, is the premium paid/received in a foreign currency.

The bank portfolios include all other balance-sheet and off-balance-sheet positions not assigned to any of the trading portfolios. The transactions are executed to realize a profit over the entire contracted transaction period. The Group's and Corporate Banking Sector takes over the interest rate risk positions held in the bank portfolios of all other organizational units of the Group. The mechanism of transferring the interest rate risk positions is based on the transfer price system.

Measurement of the pricing risk of the bank portfolios

The Group typically uses the following methods for measuring the risk of the bank portfolios:

- Interest rate gap analysis;
- Value-at-Close and Total Return methods;
- Interest Rate Exposure (IRE); and
- Stress testing.

Interest rate gap analysis uses the schedule of maturities or revaluations of balance-sheet positions and of derivative instruments used in hedge accounting or qualified as economic hedge for the purpose of establishing the differences between positions whose maturity or interest rate revaluation fall within a given time range.

The general rule in the interest rate gap analysis is that of classifying transactions to respective bank portfolio position revaluation bands by the contracted or assumed transaction interest rate revaluation dates.

It is assumed that:

- transactions with a fixed interest rate (such as term deposits, interbank deposits, portfolio of debt securities available-for-sale with a fixed interest rate, granted loans both repaid in full at maturity and repaid in installments) are classified into appropriate revaluation bands in accordance with their maturity dates;
- transactions with a floating interest rate, updated at a regular frequency (primarily, loans granted with interest set based on a specific market/base rate such as, e.g., WIBOR 1M) are classified into appropriate revaluation bands in accordance with the nearest interest rate revaluation date;
- transactions with an administrated floating interest rate (i.e., any changes in the interest rate and its revaluation date are reserved to sole decision of the Group) or undefined maturity or interest rate revaluation date are classified into appropriate revaluation bands in accordance with historically observed or expert assessed shifts in the moment and scale of change in the interest rate of given positions in relation to change in the market interest rates (model of minimizing product margin variability). This group of transactions / balance-sheet positions includes among others: current accounts, card loans, overdraft facilities. Additionally, early loan repayments are taken into account based

on analysis of actual repayments made by customers before the due date and product interest rate revaluation profiles are set on that basis. This pertains particularly to installment loans;

- transactions insensitive to changes of interest rates, including cash, fixed assets, equity, other assets/liabilities, are classified into the longest revaluation band;
- transactions executed directly by the Financial Markets and Corporate Banking Sector for the purpose of management of interest rate risk and liquidity risk (Financial Markets and Corporate Banking Sector own portfolio) are always classified into appropriate revaluation bands in accordance with the contracted dates.

The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation of the trading portfolio. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and gains/losses on sale of assets or cancelling of obligations.

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

The table below presents the IRE measures for the Group as at 31 December 2018 and 31 December 2016. The list has been broken down into the main currencies, i.e., PLN, USD and EUR, which jointly account for over 90% of the Group's balance-sheet.

PLN'000	**31.12.2018**		**31.12.2017**	
	IRE 12M	**IRE 5L**	**IRE 12M**	**IRE 5L**
PLN	10,444	87,021	29,217	163,736
USD	16,798	31,102	18,002	32,083
EUR	(3,103)	1,973	(409)	(6,467)

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

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

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

- management of the liquidity;
  - hedging against the risk transferred to the Financial Markets and Corporate Banking Sector from other organizational units of the Bank or the Group's entities;
- opening of own interest rate risk positions on the Group's books by the Financial Markets and Corporate Banking Sector.

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

Hedge accounting program

In addition to the general rules limiting market risk, in particular, interest rate risk, the Group has defined rules for the application of fair value hedge accounting. The main risk, which is hedged under hedge accounting, is the risk of changes in interest rates resulting from holding portfolio of securities measured at fair value through other comprehensive income with fixed interest rates. At the end of each month, when the hedging relation happened, the Group shall evaluate the effectiveness of the hedging instrument used, by analyzing the changes in the fair value of the hedged and hedging instrument in respect of the risk being hedged.

The hedged item was part of a portfolio of securities measured at fair value through other comprehensive income at a fixed interest rate, denominated in PLN and EUR. In all cases, the hedging instrument was the interest rate swap (IRS), which converts the fixed interest rate on a variable. Gains and losses arising from revaluation at fair value of the hedging instrument and changes in the fair value of the hedged items are reflected - in part resulting from the hedged risk - in profit and loss item "Net income from hedge accounting".

The table below presents the risk measured with DV01 for the portfolio of securities available-for-sale, including the economic collateral, broken down by currency:

PLN '000	31.12.2018			Total in the period 01.01.2018 – 31.12.2018		
	Total	**Securities**	**IRS**	**Average**	**Maximum**	**Minimum**
PLN	(2,538)	(2,538)	-	(2,471)	(1,461)	(3,032)
USD	-	-	-	(14)	-	(18)
EUR	(316)	(316)	-	(392)	(316)	(450)

PLN '000	31.12.2017			Total in the period 01.01.2017 – 31.12.2017		
	Total	**Securities**	**IRS**	**Average**	**Maximum**	**Minimum**
PLN	(1,813)	(2,560)	747	(1,337)	(487)	(2,215)
USD	(18)	(18)	-	(125)	(18)	(255)
EUR	(451)	(451)	-	(539)	(423)	(593)

The Group's activities involving investments in debt securities available-for-sale were also one of the main factors influencing changes in the level of the risk of mismatch in revaluation periods as expressed by the IRE measure.

Measurement of the market risk of the trading portfolios

The following methods are applicable in measurement of the risk of the trading portfolios:

- Factor Sensitivity;
- Value at Risk (VaR); and
- Stress testing.

Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a specific change in a market risk factor (e.g., change of the interest rate by 1 basis point at a given point on the interest rate curve, change of the currency exchange rate or share price by 1%).

In the case of interest rates, the applicable sensitivity measure is DV01.

In the case of exchange rate (FX) risk, the Factor Sensitivity value is equal to the value of the FX position in a given currency.

In the case of positions held in equities, the Factor Sensitivity value is equal to the net value of the positions held in the respective instruments (shares, indices, participation units).

Value at Risk (VaR) is the integrated measure of the market risk of trading portfolios which combines the impact of positions in respective risk factors and accounts for the effect of correlation between the fluctuations of different factors. VaR is applied for the purpose of measuring the potential decrease in the value of a position or portfolio under normal market conditions, at a specific confidence level and within a specific time period. In the case of positions opened in the Group's trading portfolio, VaR is calculated at a 99% confidence level and a one-day holding period.

DV01 as well as VaR for the trading portfolio are calculated net of the economic hedge of the portfolio of securities available-for-sale, i.e., net of derivative instruments intended to hedge the fair value of the portfolio. The exposures to the risk of such transactions are mitigated through the application of relevant risk measurement methods and by the bank portfolio risk limits.

Each day, the Group runs stress tests on the assumption that the risk factors change by more than expected in the Value at Risk scenario and ignoring the historical correlations of these factors.

The Group keeps records of exposures of the bank portfolios to market risk in over twenty currencies both for currency positions and exposures to interest rates risk. These exposures are significant only for a few currencies. For a large group of currencies, the exposures are the consequence of a gap between transactions executed on the customer's orders and closing transactions with other wholesale market counterparties. Significant exposures to market risk are opened for PLN, currencies of well-developed markets (predominantly USD and EUR with a lesser focus on GBP, CHF and JPY) and Central European currencies.

The values of significant exposures to the interest rate risk of the trading portfolios risk in terms of DV01 in 2018 are presented in the table below:

PLN'000	31.12.2018	31.12.2017	In the period 1.01.2018 – 31.12.2018		
			Average	Maximum	Minimum
PLN	671	313	194	1,106	(710)
EUR	100	73	56	168	(61)
USD	54	9	53	384	(21)

Average exposures to the interest rate risk in the local currency in 2018 was higher comparing to the level from the previous year and amounted to PLN 433 thousand. Average exposure to the interest rate risk in EUR was higher than in 2017 (DV01 amounted to PLN 70 thousand, compared to PLN 57 thousand in the previous year). Average exposure in USD was higher than in 2017 (DV01 amounted to PLN 68 thousand, compared to PLN 46 thousand in 2017). The maximum exposure in PLN of the biggest exposures accepted by the Treasury Division was PLN 1,106 thousand compared to PLN 839 thousand in 2017 and the position in EUR amounted to PLN 168 thousand compared to PLN 127 thousand in the previous year.

The Financial Markets and Corporate Banking Sector, which trades in financial instruments within the Group, continued the strategy of very active management of exposures to FX risk and interest rate risk by adjusting the volume and direction of such exposures depending on changing market conditions, which is reflected in the range of volatility of these exposures (the minimum and the maximum values in the table above).

The table below presents the levels of risk measured by VaR (net of economic hedges of the portfolio of securities available-for-sale) broken down by FX risk and interest rate risk position in 2018:

PLN'000	31.12.2018	31.12.2017	In the period 1.01.2018– 31.12.2018		
			Average	Maximum	Minimum
Currency risk	174	289	738	3,592	105
Interest rate risk	6,889	3,499	5,609	14,274	1,682
Spread risk	2,612	6,202	4,294	7,509	1,619
Total risk	7,334	7,347	7,780	15,043	4,371

The overall average level of the market risk of the trading portfolios was 4% lower in 2018 than the average level in 2017, representing an increase by over PLN 869 thousand, mainly as a result of higher exposures to credit spread changes. The maximum price risk level was PLN 15,043 thousand, compared to PLN 15,198 thousand in 2017.

Equity instruments risk

Dom Maklerski Banku Handlowego S.A. ("DMBH") is the Group's key company trading in equity instruments. In its core business, DMBH has been authorized to accept pricing risk of the trading portfolio of shares, or rights to shares, traded or likely to be traded on the Warsaw Stock Exchange ("WSE"), or BondSpot, WIG20 index futures and Indexed Participation Units, as well as shares of companies dual-listed on the WSE which are traded on international stock exchanges. The pricing risk of DMBH's portfolios of instruments is managed by means of volume limits applicable to specific types of financial instruments and concentration warning thresholds applicable to instruments of specific issuers. Moreover, DMBH uses warning thresholds of potential loss under stress scenarios and the cumulative realized loss on the trading portfolio.

The Group's FX exposure

The table below presents the Group's FX exposure by main currencies:

31.12.2018

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	4,624,242	4,575,132	15,661,387	15,672,613	37,884
USD	1,530,263	3,765,163	22,219,596	19,954,563	30,133
GBP	12,554	445,558	894,004	461,895	(895)
CHF	607,154	215,197	2,352,073	2,748,500	(4,470)
Other currencies	88,205	234,376	2,046,088	1,892,725	7,192
	6,862,418	**9,235,426**	**43,173,148**	**40,730,296**	**69,844**

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

31.12.2017

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,740,247	4,466,023	15,467,548	14,648,480	93,292
USD	1,103,591	3,751,787	11,883,166	9,222,515	12,455
GBP	14,454	396,063	412,574	31195	(230)
CHF	339,293	223,461	1,685,061	1,791,647	9,246
Other currencies	38,561	211,370	1,872,809	1,680,813	19187
	5,236,146	**9,048,704**	**31,321,158**	**27,374,650**	**133,950**

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

OPERATIONAL RISK

Strategic goals and assumptions of the operational risk management system

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

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

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

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

Operational risk management system in the Group is built in a way that ensures proper risk management at every stage, i.e.: identification, assessment/measurement, mitigation, control, monitoring and reporting.

The implementation of the strategy by the Management Board shall be assessed by the Supervisory Board, assisted by Audit Committee and Risk and Capital Management Committee based on synthetic reports submitted by the Management Board with frequency correlated with the committees' meetings, determining the scale and types of operational risk that the Bank is exposed to, methods of operational risk management, probability of risk's occurrence, assessment of potential negative impact of operational risk management methods, as well as results of operational risk profile and operational risk appetite monitoring. If necessary, after evaluation the Supervisory Board may request revision of the entire or partial internal control system.

Operational risk definition

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events.

It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk.

Operational Risk does not cover strategic risks or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

Definition of Operational Risk covers: Compliance risk, Technological risk, Outsourcing risk, Misappropriation risk, Money Laundering risk, Information Security risk, External or internal events risk (Continuity of Business), Tax and Accounting risk, Product risk, Legal risk, Models risk, Staffing risk, Concentration risk, Conduct risk.

As part of operational risk, the following difficult to measure risks, which were identified as significant, are identified: compliance risk, model risk, outsourcing risk and information security risk (including cyber risk).

Rules of operational risk identification

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

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

Operational Risk Profile

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

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

Measurement and assessment

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

Assessed capital requirement for operational risk covers all risk categories included by the Group in operational risk definition.

Risk tolerance framework, risk control and mitigation

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

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

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

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

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

Monitoring and reporting

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

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

The Supervisory Board supervises and assesses the adequacy and effectiveness of operational risk management. The Supervisory Board is supported by Committees of Supervisory Board - Audit Committee, Risk and Capital Committee and Remuneration Committee.

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

Assumptions of internal control of operational risk

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

The Management Board is supported by the Operational Risk, Control and Compliance Committees and the Risk and Capital Management Committee.

Each Business Unit must establish an appropriate system of controls that are commensurate with the level of operational risk and other risks being managed, including proper documentation of the control procedures and appropriate staff training. Each Business Unit must evaluate the risks that are unacceptable or outside of the Business Unit's risk appetite/tolerance and determine the appropriate actions for their mitigation or transfer.

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

Additionally, periodic assessment of adequacy and effectiveness of controls covers monitoring and testing of the adequacy and effectiveness of the key controls mechanisms (Managers Control Assessment), vertical monitoring, at a frequency commensurate with the underlying risk and frequency of the control, and independent review by internal audit. In case of identification of deficiency or an area of unacceptable risk, the management of the Business Unit is responsible for formulating a corrective action plan to resolve these deficiencies. Completion of corrective actions falls under independent monitoring and control. Arrangement and execution of effective operational risk management process in the Group's subsidiaries rests with Management Boards. Management Boards of those subsidiaries assure adequacy of organizational structures and implementation of processes and procedures aligned with undertaken operational risk. Supervisory Boards of subsidiaries maintain surveillance over operational risk management system and assess its effectiveness and adequacy. Cohesion of operational risk management standards is provided by relevant units in subsidiaries, supported by Bank operational risk management unit. Effectiveness of operational risk management in Bank's subsidiaries and Bank is audited and assessed against consistent criteria.

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

EQUITY MANAGEMENT

According to the Banking Act, banks in Poland are obliged to maintain equity at a level adequate for their specific business risks.

The Group's equity amounted to PLN 7,056,750 thousand as at 31 December 2018 (as at 31 December 2017: PLN 6,938,883 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 4,970,103 thousand (as at 31 December 2017: PLN 4,981,895 thousand) Such a capital level is considered sufficient for conducting business activity. The capital level is regularly monitored by using the capital adequacy ratio.

In 2008, the Group launched the process of estimating internal capital. The Group identified significant risks and assessed the capital required for coverage of these risks.

The Bank determines a policy of future dividend payment to the shareholders as part of the capital management process. The dividend policy depends on a number of factors including the Bank's profits, the Bank's expectations concerning future financial results, the level of capital requirements, as well as tax, regulatory and legal issues.

Financial data necessary to calculate the Group's capital adequacy ratio is presented in the table below:

Capital adequacy

Capital adequacy ratio*

PLN'000	31.12.2018	31.12.2017
Common Equity Tier 1 Capital	**4,970,103**	**4,981,895**
Total capital requirements, including:	**2,361,451**	**2,230,567**
credit risk capital requirements	1,893,873	1,749,046
counterparty risk capital requirements	50,745	57,819
Credit valuation correction capital requrements	28,466	49,033
excess concentration and large exposures risks capital requirements	12,459	3,746
total market risk capital requirements	95,391	82,411
operational risk capital requirements	280,517	288,512
Common Equity Tier 1 Capital ratio	**16.8%**	**17.9%**

**Total capital ratio was calculated according to the rules stated in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.*

In 2018, as well as in 2017, the Group complied with all the regulatory prudential standards on capital adequacy.

50. Subsequent events

As from 1 February 2019 by the decision of the Supervisory Board of Bank from 7 December, 2018, James Foley was appointed to perform the function of a member of the Management Board of Bank for a three-year term of office. James Foley within the division of his competences will be responsible for the transactional banking area.

After 31 December 2018 there were no other major events undisclosed in these financial statements, that could have a significant influence on the net result of the Group.

Signatures of Management Board Members

Date	Name	Position/function
21.03.2019	Sławomir S. Sikora	President of the Management Board
21.03.2019	Natalia Bożek	Vice-President of the Management Board
21.03.2019	Maciej Kropidłowski	Vice-President of the Management Board
21.03.2019	David Mouillé	Vice-President of the Management Board
21.03.2019	Barbara Sobala	Vice-President of the Management Board
21.03.2019	James Foley	Member of the Management Board
21.03.2019	Katarzyna Majewska	Member of the Management Board