TRANSLATION

CONDENSED INTERIM STAND-ALONE FINANCIAL STATEMENTS OF BANK HANDLOWY W WARSZAWIE S.A. FOR THE 6 MONTH PERIOD ENDED 30 JUNE 2018

AUGUST 2018

CONTENTS

Condensed income statement

PLN'000 — For a period	Note	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018	II quarter* 01.04. - 30.06. 2017	I half of the year* 01.01. - 30.06. 2017
Interest income		305,541	617,812	329,577	641,594
Similar income		11,229	26,654	n/a	n/a
Interest expense and similar charges		(46,790)	(97,910)	(66,422)	(124,836)
Net interest income		**269,980**	**546,556**	**263,155**	**516,758**
Fee and commission income		152,295	304,299	157,952	299,886
Fee and commission expense		(17,879)	(36,432)	(16,937)	(33,977)
Net fee and commission income		**134,416**	**267,867**	**141,015**	**265,909**
Dividend income		**23,523**	**23,581**	**32,835**	**32,835**
Net income on trading financial instruments and revaluation		**94,665**	**191,395**	**79,634**	**152,040**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income[a]		**42,492**	**79,193**	**10,875**	**15,861**
Net gain/(loss) on equity and other instruments measured at fair value through income statement[b]		**6,070**	**6,546**	**3,085**	**3,377**
Net gain/(loss) on hedge accounting		**-**	**3,682**	**(1,027)**	**3,554**
Other operating income		6,621	24,229	5,939	14,316
Other operating expense		(7,414)	(13,741)	(6,535)	(17,969)
Net other operating income and expense		**(793)**	**10,488**	**(596)**	**(3,653)**
General administrative expense		**(255,580)**	**(576,013)**	**(265,201)**	**(585,778)**
Depreciation and amortization		**(18,526)**	**(37,050)**	**(18,680)**	**(35,166)**
Profit on sale of other assets		**(604)**	**(858)**	**25**	**27**
Net impairment on financial assets and provisions for off–balance sheet commitments[c]	5	**(27,023)**	**(32,563)**	**(9,273)**	**(38,943)**
Tax on some financial institutions		**(22,935)**	**(41,933)**	**(20,518)**	**(40,111)**
Profit before tax		**245,685**	**440,891**	**215,329**	**286,710**
Income tax expense		**(48,025)**	**(98,394)**	**(41,029)**	**(72,780)**
Net profit		**197,660**	**342,497**	**174,300**	**213,930**
Weighted average number of ordinary shares (in pcs)			130,659,600		130,659,600
Earnings per share (in PLN)			2.62		1.64
Diluted net earnings per share (in PLN)			2.62		1.64

**On 1st. January 2018 Bank 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 9-34 are integral part of the condensed interim standalone financial statements.

Condensed statement of comprehensive income

For a period	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018	II quarter* 01.04. - 30.06. 2017	I half of the year* 01.01. - 30.06. 2017
PLN'000				
Net profit	**197,660**	**342,497**	**174,300**	**213,930**
Other comprehensive income, that might be subsequently reclassified to profit or loss				
Changes in value of financial assets measured at fair value through other comprehensive income[d]	(48,795)	38,045	50,276	82,258
Other comprehensive income, that cannot be subsequently reclassified to profit or loss				
Net actuarial profits on specific services program valuation	-	-	1,883	1,883
Total comprehensive income	**148,865**	**380,542**	**226,459**	**298,071**

***On 1st. January 2018 Bank 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 9-34 are integral part of the condensed interim standalone financial statements.

Condensed statement of financial position

PLN '000 State as at	Note	30.06.2018	31.12.2017*
ASSETS			
Cash and balances with the Central Bank		509,566	462,126
Amounts due from banks		961,094	836,166
Financial assets held-for-trading		3,522,990	2,162,040
Debt investment financial assets measured at fair value through other comprehensive income[e]		15,708,747	17,439,439
Shares in subsidiaries[f]		106,086	106,368
Equity and other instruments measured at fair value through income statement[f]		48,781	26,171
Amounts due from customers	6	20,917,596	19,766,803
Tangible fixed assets		349,003	375,673
Intangible assets		1,373,156	1,351,583
Deferred tax asset		209,457	176,979
Other assets		198,299	158,688
Non-current assets held-for-sale		-	1,928
Total assets		**43,904,775**	**42,863,964**
LIABILITIES			
Amounts due to banks		2,067,637	1,568,261
Financial liabilities held-for-trading		1,616,338	1,351,031
Hedging derivatives		-	50,191
Amounts due to customers		32,534,140	32,172,441
Provisions		38,037	17,871
Current income tax liabilities		50,530	52,340
Other liabilities		955,524	777,211
Total liabilities		**37,262,206**	**35,989,346**
EQUITY			
Ordinary shares		522,638	522,638
Share premium		2,944,585	2,944,585
Revaluation reserve		27,873	(9,376)
Other reserves		2,879,760	2,879,669
Retained earnings		267,713	537,102
Total equity		**6,642,569**	**6,874,618**
Total liabilities and equity		**43,904,775**	**42,863,964**

**On 1st. January 2018 Bank 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.** In 2017 in total shown as 'Equity investments' in accordance with IAS 39.*

Explanatory notes on pages 9-34 are integral part of the condensed interim standalone financial statements.

Condensed statement of changes in equity

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2018	**522,638**	**2,944,585**	**(9,376)**	**2,879,669**	**537,102**	**6,874,618**
Impact of adopting IFRS 9	-	-	(796)	-	(74,784)	(75,580)
Restated balance as at 1 January 2018	522,638	2,944,585	(10,172)	2,879,669	462,318	6,799,038
Total comprehensive income, including:	-	-	38,045	-	342,497	380,542
Net profit	-	-	-	-	342,497	342,497
Changes in value of financial assets measured at fair value through other comprehensive income (net)[g]	-	-	38,045	-	-	38,045
Dividends to be paid	-	-	-	-	(537,011)	(537,011)
Transfer to capital	-	-	-	91	(91)	-
Balance as at 30 June 2018	**522,638**	**2,944,585**	**27,873**	**2,879,760**	**267,713**	**6,642,569**

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2017	**522,638**	**2,944,585**	**(215,061)**	**2,867,565**	**604,199**	**6,723,926**
Total comprehensive income, including:	-	-	82,258	1,883	213,930	298,071
Net profit	-	-	-	-	213,930	213,930
Net valuation of available-for-sale financial assets	-	-	82,258	-	-	82,258
Net actuarial gains on defined benefit plan	-	-	-	1,883	-	1,883
Dividends to be paid	-	-	-	-	(591,888)	(591,888)
Transfer to capital	-	-	-	12,311	(12,311)	-
Balance as at 30 June 2017*	**522,638**	**2,944,585**	**(132,803)**	**2,881,759**	**213,930**	**6,430,109**

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2017	**522,638**	**2,944,585**	**(215,061)**	**2,867,565**	**604,199**	**6,723,926**
Total comprehensive income, including:	-	-	205,685	(207)	537,102	742,580
Net profit	-	-	-	-	537,102	537,102
Net valuation of available-for-sale financial assets	-	-	205,685	-	-	205,685
Net actuarial losses on defined benefit plan				(207)	-	(207)
Dividends paid	-	-	-	-	(591,888)	(591,888)
Transfer to capital	-	-	-	12,311	(12,311)	-
Balance as at 31 December 2017*	**522,638**	**2,944,585**	**(9,376)**	**2,879,669**	**537,102**	**6,874,618**

**On 1st. January 2018 Bank 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 9-34 are integral part of the condensed interim standalone financial statements.

Condensed statement of cash flows

PLN '000 For a period	01.01. – 30.06. 2018	01.01. – 30.06. 2017*
A. Operating activities		
I. Net profit	**342,497**	**213,930**
II. Adjustments:	**(224,736)**	**(686,585)**
Current and deferred income tax recognized in income statement	98,394	72,780
Depreciation expense	37,050	35,166
Net impairment due to financial assets value loss	35,084	39,256
Net provisions (recoveries)	(2,537)	4,572
Net interest income	(546,556)	(516,758)
Dividend income	(23,581)	(32,835)
Profit/loss on sale of fixed assets	860	-
Net unrealized exchange differences	(6,329)	4,914
Equity and other investment measured at fair value though the income statement	(6,546)	-
Other adjustments	968	2,416
Change in amounts due from banks	(128,925)	(61,606)
Change in amounts due from customers	(1,320,027)	(898,107)
Change in debt securities measured at fair value through other comprehensive income[h]	1,711,373	(301,166)
Change in equity and other instruments measured at fair value through income statement[i]	-	635
Change in financial assets held-for-trading	(1,335,188)	1,947,421
Change in derivative hedging instruments	-	11,387
Change in other assets	(16,745)	(21,262)
Change in amounts due to banks	523,863	358,721
Change in amounts due to customers	360,619	(1,601,129)
Change in liabilities held-for-trading	265,307	(9,218)
Change in amounts due to hedging derivatives	(50,191)	(2,561)
Change in other liabilities	178,371	280,789
Interest received	**732,251**	**654,240**
Interest paid	**(96,595)**	**(126,899)**
Income tax paid	**(123,110)**	**(49,788)**
III. Net cash flows from operating activities	**630,307**	**4,898**
B. Investing activities		
Inflows		
Disposal of fixed assets held-for-sale	1,068	-
Dividends received	732	13,414
Outflows		
Purchase of tangible fixed assets	(29,011)	(21,497)
Purchase of intangible assets	(3,294)	(34,803)
Net cash flows from investing activities	**(30,505)**	**(42,886)**
C. Financing activities		
Outflows		
Dividends paid	(537,011)	-
Repayment of long-term loans from financial sector	(25,445)	(48,730)
Net cash flows from financing activities	**(562,456)**	**(48,730)**
D. Exchange rates differences resulting from cash and cash equivalent calculation	**7,053**	**(9,047)**
E. Net increase/(decrease) in cash and cash equivalent	**44,399**	**(95,765)**
F. Cash and cash equivalent at the beginning of reporting period	**514,477**	**672,754**
G. Cash and cash equivalent at the end of reporting period (see note 9)	**558,876**	**576,989**

**On 1st. January 2018 Bank 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' *in accordance with IAS 39.*

Explanatory notes on pages 9-34 are integral part of the condensed interim standalone financial statements.

Supplementary notes to the condensed interim standalone financial statements

1. General information about the Bank

Bank Handlowy w Warszawie S.A. ("the Bank") Head Office is located in Warsaw at Senatorska 16, 00-923 Warsaw. The Bank was established on the basis of Notarial Deed of 13 April 1870 and was registered and entered into the Register of Companies by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000001538 and was granted a statistical REGON No. 000013037 and tax identification No. (NIP) 526-030-02-91.

The Bank is expected to continue the business activity in the foreseeable future.

The share equity of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common bearer shares with a par value of PLN 4.00 per share. Bank is a listed company on the Warsaw Stock Exchange.

The Bank is a member of Citigroup Inc. The Bank is a subsidiary of Citibank Overseas Investments Corporation with its' headquarter in New Castle, USA., a subsidiary of Citibank N.A with its' headquarters in New York, USA, which is the ultimate parent company of the Bank.

The Bank operates on the basis of applicable regulations and its Articles of Association.

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.

2. Declaration of conformity

These condensed standalone interim financial statements have been prepared in accordance with International Accounting Standard IAS 34 'Interim Financial Reporting' adopted by European Union and other applicable regulations.

These financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the standalone financial statements of the Bank for the year ended 31 December 2017 and condensed interim consolidated financial statement of the Capital Group of Bank Handlowy w Warszawie S.A. for the period of 6 months ended 30 June 2018.

In accordance with the Decree of the Ministry of Finance dated 29 March 2018 regarding current and periodic information provided by issuers of securities and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2018 No 757) the Bank is obliged to publish its financial results for the six-month period ended 30 June 2018 which is deemed to be the current interim financial reporting period.

These condensed standalone interim financial statements were approved by the Board of Directors on 22 August 2018.

3. Significant accounting policies

The interim condensed stand-alone financial statements of the Bank for the first half of 2018 have been prepared in accordance with accounting principles adopted and summarized in the annual stand-alone financial statements of the Bank for the financial year ended 31 December 2017, except for accounting principles amendments effective from 01 January 2018 described further resulting from implementation of IFRS 9 "Financial instruments" and IFRS 15 "Revenues from contracts with customers".

The interim condensed stand-alone financial statements of the Bank have been prepared for the period from 1 January 2018 to 30 June 2018 and for the stand-alone statement of financial position as at 30 June 2018. Comparative financial data are presented for the period from 1 January 2017 to 30 June 2017 and for the stand-alone statement of financial position as at 31 December 2017.

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

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

The preparation of interim condensed stand-alone financial statements of the Bank with accordance to International Financial Reporting Standards requires from the Management to prepare certain estimates and adopt related assumptions that affect the amounts reported in the financial statements. This financial statement is based on the same estimation rules, which were used in the annual stand-alone financial statements of the Bank for the financial year ended 31 December 2017, including the reasons and sources of uncertainty as at the balance sheet date taking into account amendments resulting from IFRS 9 and IFRS 15.

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 Bank:

- IFRS 16 „Leasing", endorsed by the European 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.

  The Bank started implementation work and believes that the application of the new standard will impact recognition, disclosures and measurement of assets used in operating lease contract together with corresponding liabilities.

  On the basis of so far performed work performed so far, the Bank identified contracts covered by the requirements of IFRS 16 concerning real estates and estimates the impact of the change in recognition of these contracts in financial statement. Furthermore, the Bank analyses identified contracts in other areas in order to check if they are subject to the new requirements.

- IFRS 9 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.

Other standard amendments awaiting endorsement by the European Union:

- IFRIC 23 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,
- 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 and IFRS 11 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 for borrowing costs treatment,
- amendments to IAS 28 regarding measurement of the long-term share in affiliate companies and joined ventures,
- IAS 19 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

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 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 specifying classification of investment property. No significant impact on the financial statement.
- Standard amendments cycle 2014-2016 including: IFRS 1 in respect to exemptions for first time adoption of IFRS. No significant impact on the financial statement.
- Amendments to IFRS 2 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 that allows temporary exemption from IFRS 9 for entities that mainly originate contracts under IFRS 4, resulting in reduction of profit volatility. No significant impact on the financial statement.

IFRS 9 "Financial instruments"

Since 1 January 2018 Bank 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 Bank 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.

- Bank 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, Bank 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, Bank 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) Bank classifies financial assets to assets measured at fair value through profit and loss.

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, Bank 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 incidental and concern deteriorated exposures. As a result, the Bank 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, Bank measures such instruments at fair value through profit or loss similar to IAS 39 regulation.

Debt instruments available for sale 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

Bank 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), Bank has identified financial assets that failed SPPI test, except for the possession of assets for which interest formula contains a multiplier. In particular, it concerns credit cards portfolio. 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 Bank with multiplier higher than 1 results from current and past level of maximum acceptable interest set by law. In this financial statement, Bank presents such exposures as measured at amortized cost. The Bank is in the process of changing 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 Bank 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 through the income statement

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. Bank 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 Bank 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 factors presented in scenarios prepared cyclically by the Chief Economist.

Significant Increase in Credit Risk - Institutional Clients Group

In order to assess if there has been an increase in credit risk Bank 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 Obligator's Risk Rating),
- 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).

Significant Increase in Credit Risk - Global Consumer Banking

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

- as part of the change of the default risk analysis process for a given credit exposure, compare the current assessment of default risk for the credit exposure with the default risk assessment made at the time of initial recognition.
- In addition, assessment includes qualitative reasons based 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.

In case of identification of relevant credit risk, the expected loss, which is the basis of determining the level of the impairment loss, 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 substitution the so-called behavioral maturity is calculated, resulting from the empirical estimation of the life of the credit product. The Bank 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. In addition, models used to determining provisions are assessed by independent validation of models' office.

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.

The value of 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 Bank 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.

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.

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 (instalments' plans) and
- Renewable credit lines.

The rules for classifying exposures to the Stages are based on the credit risk management processes existing at the Bank, 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 PD value is set at the customer level, in a 12-month horizon, based on a set of statistical models. These are scoring models: demographic, behavioral and using 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 PD value forecast for a set of partial model values available for a given client.

First application of IFRS 9

Disclosures of the impact of the adoption of IFRS 9

The Bank decided to use IFRS 9 exemption from 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 Bank 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 in retained earnings 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):

Stand-alone financial statement's line as at 31.12.2017	Stand-alone 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	20,602,969	(87,360)	20,515,609
Equity investments	Equity and other investments measured at fair value through income statement	Purchase price less impairment	Fair value through profit and loss	26,171	16,064	42,235
Deferred income tax asset	Deferred income tax asset	-	-	176,979	18,602	195,581
Total assets				**20,806,119**	**(52,694)**	**20,753,425**

Stand-alone financial statement's line as at 31.12.2017	Stand-alone financial statement's line as at 01.01.2018	Measurement category IAS 39	Measurement category IFRS 9	IFRS 9 Carrying amount IAS 39	IFRS 9 implementation impact	Carrying amount IFRS 9
Liabilities	**Liabilities**					
Provisions for off-balance sheet commitments	Provisions for off-balance sheet commitments	Amortised cost	Amortised cost	12,789	22,886	35,675
Total liabilities				**12,789**	**22,886**	**35,675**
Bank's Capital				**6,874,618**	**(75,580)**	**6,799,038**

The total impact of adopting of IFRS 9 adoption on the Bank's capital equity 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 Bank estimated the impact of adopting IFRS 9 in comparison to the Stand-alone Financial Report for 2017.As a result of amendment of the estimation, the Bank's capital was minimized by PLN 13,989 thousand (including tax effect).

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

- Change of impairment calculation for financial assets and off-balance sheet liabilities, 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 bank 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 Bank decided that for the needs of capital adequacy assessment purpose, 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
Stand-alone financial statement's line as at 31.12.2017	**Stand-alone 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	836,166	834,930
Financial assets held-for-trading	Financial assets held-for-trading	Fair value through profit and loss	Fair value through profit and loss (mandatory)	2,162,040	2,162,040
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 and other instruments measured at fair value through income statement	Purchase price less impairment	Fair value through profit and loss	26,171	42,235
Amounts due from customers	Amounts due from customers	Amortised cost	Amortised cost	19,766,803	19,680,679
Other assets (financial)	Other assets (financial)	Amortised cost	Amortised cost	98,110	98,110
Financial liabilities					
Amounts due to banks	Amounts due to banks	Amortised cost	Amortised cost	1,568,261	1,568,261
Financial liabilities held-for-trading	Financial liabilities held-for-trading	Fair value through profit and loss	Fair value through profit and loss (mandatory)	1,351,031	1,351,031
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	32,172,441	32,172,441
Provisions for off-balance sheet commitments	Provisions for off-balance sheet 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
Stand-alone income statement's line for the I half of 2017	**Stand-alone income statement's line for the I half of 2018**	**I half of 2017**	**I half of 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	15,861	79,193
Net gain on capital investment instruments available-for-sale	Net gain on equity and other investments measured at fair value through the income statement	3,377	6,546
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	Net impairment on financial assets and provisions for off–balance sheet commitments	(38,943)	(32,563)

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 measurement under IFRS 9, on the date of the first application of IFRS 9:

PLN '000	Measurement category IAS 39	Reclassifications	Measurement	Measurement category MSSF 9
Financial assets				
Amortised cost				
Amounts due from banks				
Opening balance	836,166			
Measurement		-	(1,236)	
Closing balance				834,930
Amounts due from customers				
Opening balance	19,766,803			
Measurement		-	(86,124)	
Closing balance				19,680,679
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	26,171			
Fair value through profit and loss		(26,171)	-	
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		26,171	-	
Measurement		-	16,064	
Closing balance				42,235
Financial liabilities				
Provisions for off-balance sheet 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 off-balance sheet commitments in amount of PLN 22,886 thousand.

Furthermore, for equity investment in the line of measurement, the Bank recognized the gap among book value– IAS 39 and value- IFRS 9 using valuation at fair value.

Moreover, the Bank accomplished reclassification of financial assets to the new categories required by IFRS 9. In particular, reclassification relates to portfolio of debt securities 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	Measurement	Impairment allowance IFRS 9
Measurement category				
Loans and advances (IAS 39)/ Amortized cost (IFRS 9)				
Amounts due from banks	1,111		1,236	2,347
Amounts due from customers	585,609	(5,178)*	86,124	666,555
	588,720	**(5,178)**	**87,360**	**668,902**
Financial assets available for sale (IAS 39)/ Financial assets at fair value through profit and loss (IFRS 9)				
Equity and other investments measured at fair value through the income statement	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)	**5,082**	-	-	**5,082**
Total	**608,841**	**(9,428)**	**110,246**	**709,659**

** 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 and the value of allowance for these interest IAS 37. 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 fees and commissions recognized by the Bank:

1. Identifying the contract with a customer- Bank 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 Bank can identify each party's rights regarding the goods or services to be transferred;
    c) the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank would sell a promised good or service separately to a customer.
    If a stand-alone selling price is not directly observable, Bank 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 Bank 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) Bank's present right to payment for the asset or service
    b) The customer has legal title to the asset
    c) The Bank 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 Bank performs;

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

In other circumstances, revenue is recognized immediately.

The Bank 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 Bank 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 Bank 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 Bank.

In the process of implementation of the standard, the Bank has not identified differences in the approach to revenue recognition in relation to IAS 18 effective until the end of 2017. Most of the Bank's revenues are recognized using the effective interest rate method, in accordance with the provisions of IFRS 9. In case of the Bank, 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 Bank has not identified significant costs necessary to obtain contracts that would have to be amortized over time.

Foreign currency

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

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

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

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

PLN		30 June 2018	31 December 2017	30 June 2017
1	USD	3.7440	3.4813	3.7062
1	CHF	3.7702	3.5672	3.8667
1	EUR	4.3616	4.1709	4.2265

Financial assets and financial liabilities

Classification

After implementation of IFRS 9 Bank 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

Aset 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 stand-alone financial statement as "Financial assets held for trading"

Minority shareholdings are presented in the stand-alone financial statement as "Equity and other instruments measured at fair value through income".

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.

A specific situation of financial assets classified in this category are assets whose interest formula contains a multiplier described in an earlier section.

In the stand-alone 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 Bank has originated or purchased exposures already impaired at the moment of initial recognition or Bank 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.

Bank classifies in this category selected debt instruments and presents them in the stand-alone 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.

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.

Cash

Cash is cash in hand and receivables on current balances in banks, described in detail in note 9 "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 Bank's statement of financial position and derecognized at transaction settlement date, i.e., the date on which the Bank 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 Bank 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 Bank 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.

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 Bank recalculates gross balance sheet value of financial asset and recognizes profit or loss in interest income. 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.

Measurement

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 Bank 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,

Financial liabilities that are not classified as financial liabilities measured at fair value through profit or loss after initial recognition 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.

Hedge accounting

The Bank applies fair value hedge accounting and used the option available under IFRS 9 to continue application of hedge accounting according to IAS 39.

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

Assets and financial liabilities are offset and shown in stand-alone financial statements at net value, if the right to offset involved amounts and the intention of settlement at net value or simultaneous implementation of given asset and regulation of commitment is legally enforceable. At present, the Bank doesn't offset any financial assets and liabilities.

Impairment of assets measured at amortized cost

On a commitment basis, the Bank 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 Bank 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 Bank assesses if there is objective evidence of impairment of one financial asset or a group of financial assets.

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

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

- significant financial difficulties of the issuer or obligor,
- 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,
- 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 Bank 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.

Non-recoverable loans (i.e., loans for which the Bank 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 Bank'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 off-balance sheet 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 process of assessing exposures as "forborne" status is closely related to the credit risk management process, including the impairment recognition process for the exposure.
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 Bank grants a concession to the debtor, if it does not change significantly the terms and expected cash flows of the financial asset, the expected cash flows from the financial asset subject to the concession are included in the measurement of

[1] *below the level of corresponding internal rating (for CCC- Standard & Poors and Caa3 Moody's)*

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.

Classification of exposure to the Stage is performed depending on relationship management type (individual or group), taking into account wide range of information used in the standard risk management processes (including Early Warning System), related to both past and future events, including macroeconomic conditions (taken into account in macroeconomic scenarios developed on regular basis by Chief Economist) and number of days past due.

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 Bank 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 increases after 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 liabilities 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 an provisions for off-balance sheet commitments'.

In order to calculate the impairment loss for expected credit losses for assets measured at fair value through other comprehensive income, the Bank 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).

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 Bank 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 established financial assets with impairment on account of credit risk and existing financial assets with impairment on account.

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 Bank renders financial services to its customers. The Bank 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 Bank 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 Bank transfers control of service over time and, therefore, satisfies a performance obligation and the customer simultaneously receives and consumes the benefits provided by the Bank’s performance as the Bank 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.

Bank 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 Bank 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 Bank 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 Bank expects to recover the costs.

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

The Bank 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 Bank 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, fix rates and interest rates, (ii) change of CDS quotes (iii) changes of credit risk ratings.

Impairment of loans

The Bank 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 Bank makes regular allowances for impairment of loan receivables, whose level is regularly monitored.

At each balance sheet date, the Bank 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 Bank 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 Bank.

Impairment of goodwill

The Bank 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 Bank 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 Bank's employee, including staff turnover, risk of death and risk of total work incapacity.

4. Segment reporting

Information on operating segments is presented in the Condensed interim consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the 6 month period ended 30 June 2018.

5. Net impairment loss on assets and provisions for off-balance sheet commitments

PLN '000	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018	II quarter* 01.04. - 30.06. 2017	I half of the year* 01.01. - 30.06. 2017
Net impairment on equity investments				
Write-offs creation	(31)	(39)	-	-
Write-offs reversals	-	-	4,021	3,937
	(31)	**(39)**	**4,021**	**3,937**
Net impairment on amounts due from banks				
Write-offs creation	(777)	(3,021)	(146)	(270)
Write-offs reversals	1,001	1,609	163	363
	224	**(1,412)**	**17**	**93**
Net impairment on amounts due from customers				
Write-offs creation and reversals	**(30,515)**	**(34,267)**	**(13,313)**	**(43,331)**
Write-offs creation	(60,340)	(109,729)	(41,744)	(93,445)
Net write-offs creation on receivables on taken instruments transactions	(12)	(51)	-	(1)
Write-offs reversals	30,216	75,865	27,075	47,086
Net write-offs creation on receivables on taken instruments transactions	84	129	50	127
Other	(463)	(481)	1,306	2,902
Recoveries from sold debts	**7**	**14**	**(14)**	**45**
	(30,508)	**(34,253)**	**(13,327)**	**(43,286)**
Net impairment on debt investment financial assets measured at fair value through other comprehensive income				
Write-offs reversals	178	620	-	-
	178	**620**	**-**	**-**
Net impairment on financial assets	**(30,137)**	**(35,084)**	**(9,289)**	**(39,256)**
Created provisions for granted financial and guarantee commitments	(7,866)	(16,820)	(2,850)	(5,731)
Release of provisions for granted financial and guarantee commitments	10,980	19,341	2,866	6,044
Net impairment on provisions for granted off-balance sheet commitments	**3,114**	**2,521**	**16**	**313**
Net impairment on financial assets and provisions for off-balance sheet commitments	**(27,023)**	**(32,563)**	**(9,273)**	**(38,943)**

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

6. Amounts due from customers

PLN '000	30.06.2018	31.12.2017
Amounts due from financial sector entities		
Loans, placements and advances	529,171	444,777
Unlisted debt financial assets*	1,201,095	1,200,636
Receivables from purchased repo securities	72,195	
Guarantee funds and deposits pledged as collateral	224,913	286,432
Total gross value	**2,027,374**	**1,931,845**
Impairment write-downs	(2,034)	(17,473)
Total net value	**2,025,340**	**1,914,372**
Amounts due from non-financial sector entities		
Loans and advances	17,754,014	16,722,365
Unlisted debt financial assets *	496,074	492,125
Purchased receivables	1,291,501	1,193,041

PLN '000	30.06.2018	31.12.2017
Realized guarantees	483	1,038
Other receivables**	14,566	7,998
Total gross value	**19,556,638**	**18,420,567**
Impairment write-downs	(664,382)	(568,136)
Total net value	**18,892,256**	**17,852,431**
Total net value of receivables from customers	**20,917,596**	**19,766,803**

** Corresponds to the 'Unlisted debt securities' in accordance with IAS 39.*
***As at 30 June 2018 position "Other receivables" contains leasing receivables in amount PLN 33 thousand (31 December 2017: PLN 1,808 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 418,589 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	30.06.2018
Gross total value including contract interest in Stage 3	22,002,601
Impairment write-downs including contract interest in Stage 3	(1,085,005)
Net total value	**20,917,596**

Movement in 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	-	-	-	**(585,609)**
Impact of adopting IFRS 9	-	-	-	(86,124)
Reclassification	-	-	-	5,178
Loss allowance as at 1 January 2018	**(54,767)**	**(76,847)**	**(534,941)**	**(666,555)**
Transfer among stages	710	(439)	(271)	-
Creations/Releases in the period through the income statement	(5,089)	(2,179)	(26,999)	(34,267)
Amounts written off	-	-	35,650	35,650
Foreign exchange and other movements	(357)	(264)	(623)	(1,244)
Loss allowance as at 30 June 2018	**(59,503)**	**(79,729)**	**(527,184)**	**(666,416)**

	2017*		
PLN '000	Institutional customers	Retail customers	Total
As at 1 January	**(274,435)**	**(284,782)**	**(559,217)**
Increases (due to):			
Creation of write-offs	(90,419)	(121,011)	(211,430)
Decreases (due to):			
Restating receivables	24,358	13,470	37,828
Net write-offs on receivables on taken instruments transactions	1,390	-	1,390
Write-offs release	45,749	53,885	99,634
Sale of receivables	-	42,458	42,458
Other	3,287	441	3,728
As at 31 December	**(290,070)**	**(295,539)**	**(585,609)**

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

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.

Leasing products continue to be offered by the Bank and are made available as part of the “open architecture”, i.e. the Bank’s partnership with organizations from outside its Bank.

Amounts due from customers include the following amounts concerning finance lease receivables from non-financial sector entities:

PLN ‘000	**30.06.2018**	**31.12.2017**
Gross finance lease receivables	33	1,808
Impairment write-downs	-	(2)
Unrealized finance income	-	-
Net finance lease receivables	**33**	**1,806**

Finance lease income is presented in the ‘interest income’.

7. Financial instruments disclosures

Fair value of financial assets and liabilities

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

PLN ‘000	**30.06.2018**		**31.12.2017***	
	Balance value	**Fair value**	**Balance value**	**Fair value**
Assets				
Cash and balances with the Central Bank	509,566	509,566	462,126	462,126
Amounts due from banks	961,094	961,088	836,166	836,166
Amounts due from customers	20,917,596	20,945,318	19,766,803	19,727,148
Liabilities				
Amounts due to banks	2,067,637	2,067,653	1,568,261	1,568,359
Amounts due to customers	32,534,140	32,532,898	32,172,441	32,171,614

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

Valuation methods and assumptions used for the purposes of fair value

Fair value of assets and financial liabilities are calculated as follows:

- 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 Banks’s management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.

  The Bank applies the following methods of measurement of particular types of derivative instruments instruments:
  - FX forwards – discounted cash flow model;
  - options – option market-based valuation model;
  - interest rate transactions – discounted cash flow model
  - futures – current quotations.

- For valuation of securities’ transactions - current quotations are used. In case of lack of quotations, adequate models based on discount and forward curves including decrease of credit spread if needed, are used for valuation.

- The fair value of other assets and financial liabilities (excluding described above) are estimated in accordance to commonly accepted models of valuation based on discounted cash flow analysis taking into account fluctuations in market interest rates and changes in margins during the financial period.

Fair value included in stand-alone statement of financial position

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 quoted in an active market, where regular quotations are available and turnover is sufficient. The active market includes stock and brokerage quotes and quotes in pricing services type systems, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include debt 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, presented in Reuters and Bloomberg systems. Depending on financial instruments, the following specific valuation techniques are used:
  - listed prices for a given instrument or listed 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, non-market parameters.

The tables below present values of financial assets and liabilities in the standalone statement of financial position, in accordance with a fair value, classified by above levels.

As at 30 June 2018

PLN '000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	2,082,278	1,440,712	-	3,522,990
derivatives	79	1,240,719	-	1,240,798
debt securities	2,082,199	199,993	-	2,282,192
Debt financial assets measured at fair value through other comprehensive income*	15,673,966	34,781	-	15,708,747
Equity and other investments measured at fair value through income statement **	769	-	48,012	48,781
Financial liabilities				
Financial liabilities held-for-trading	77,117	1,539,221	-	1,616,338
short sale of securities	76,661	-	-	76,661
derivatives	456	1,539,221	-	1,539,677

** 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.*

As at 31 December 2017*

PLN '000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	1,144,095	1,017,945	-	2,162,040
derivatives	188	1,017,944	-	1,018,132
debt securities	1,143,907	1	-	1,143,908
Debt securities available-for-sale	16,007,151	1,432,288		17,439,439
Equity investments available-for-sale	987	-	23,062	24,049
Financial liabilities				
Financial liabilities held-for-trading	65	1,350,966	-	1,351,031
short sale of securities	-	-	-	-
derivatives	65	1,350,966	-	1,351,031
Hedging derivatives	-	50,191	-	50,191

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

On the 30th of June 2018 the amount of financial assets classified to the Level III includes the share of PLN 28,791 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 statement 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.-31.06.2018** 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	6,764
As at the end of period	**48,012**

PLN '000	**01.01.-31.12.2017*** Financial assets available-for-sale Equity investments
As at January	**18,965**
Valuation of shares	4,097
As at December	**23,062**

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

In the first half of 2018 the Bank has made no transfers between levels of instruments' fair value due to established method of setting fair value.

In the first half of 2018, the Bank has not made any changes in classification criteria of financial instruments' (presented in the stand-alone statement of financial position at fair value) to each category reflecting the fair value (level I, level II, level III).

In the first half of 2018, the Bank has not made any changes in financial assets classification that could result from asset's purpose or usage change.

In the first half of 2018 there was no change in the business or economic situation, that could influence the fair value of Bank 's financial assets or liabilities, regardless of their presentation in the fair value or amortized cost.

As at 30 June 2018, there was no substantial change in the financial instruments fair value, classified to measure at the fair value portfolio in comparison to the end of 2017 reporting period. However, an increase of that portfolio was mainly due to the enhancement of the securities held-for-trading portfolio.

8. Net gain/(loss) on derecognition of asset from balance sheet

In accordance with the amendments to IAS 1 'Presentation of financial statement', which result from adopting IFRS 9, the Bank is obligated to disclosure net gain/(loss) on derecognition of financial assets. The result constitutes following positions:

PLN '000	**01.01. - 30.06.2018**	**01.01. - 30.06.2017**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	79,193	15,861
Net gain/(loss) on financial assets measured at amortized cost (presentation in Stand-alone income statement as interest income)	14,175	n/a
	93,368	**n/a**

Net gain/(loss) on derecognition of asset from balance, disclosed in this note, result from events and implementation of rules described in Note 3, in section 'Recognition and derecognition and irrelevant information'. In particular, in regard to financial assets measured at amortized cost, the result is generated in accordance with implementation of relevant amendments, while for debt investment financial assets measured at fair value through other comprehensive income, in accordance with their disposal. In stand-alone income statement, these results are disclosed adequately in position 'Income interest' (similarly before the implementation of IFRS 9) and the position 'Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income' (before the implementation of IFRS 9 in position 'Net gain/(loss) debt investment securities available-for-sale').

9. Additional information to the statement of cash flows

PLN'000	30.06.2018	31.12.2017	30.06.2017
Cash related items:			
Cash in hand	376,028	431,574	405,298
Nostro current account in Central Bank	133,015	29,031	63,708
Current accounts in other banks (nostro, overdrafts on loro accounts)	49,833	53,872	107,983
	558,876	**514,477**	**576,989**

10. Seasonality or periodicity of business activity

The business activity of the Bank does not involve significant events that would be subject to seasonal or cyclical variations.

11. Issue, redemption and repayment of debt and equity securities

In the first half of the year 2018 no issue, pay back or repurchase of debt or equity securities took place.

12. Paid or declared dividends

Dividends declared

The Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter WZ) adopted a resolution on distribution of the net profit for 2017 on June 8,2018. The Meeting resolved to appropriate the amount of PLN 537,010,956.00 for the dividend payment, which means that the dividend per one ordinary share is PLN 4,11. The dividend has cash character and the number of shares covered by the dividend equals to 130,659,600.

Simultaneously, the WZ resolved to set the date of the right to the dividend for June 18, 2018 (the day of the dividend) and the day of the dividend payment for June 25, 2018 (the day of the dividend payment).

As at day of approval of this financial statement by Management Board the dividend was paid.

13. Changes in Bank's structure

In the first half of 2018 the structure of the Bank has not changed as a result of merger, acquisition or disposal of subsidiaries, long-term investments, division, restructuring and discontinuation of activity.

14. Changes in granted and received financial and guarantee commitments

The detailed specification of granted and received financial and guarantee commitments as at 30 June 2018 and changes in comparison with the end of 2018 are as follows:

PLN '000	State as at		Change	
	30.06.2018	31.12.2017	PLN '000	%
Contingent liabilities and guarantees granted				
Letters of credit	180,865	167,983	12,882	7.7%
Guarantees granted	2,476,441	2,312,023	164,418	7.1%
Credit lines granted	14,418,244	14,373,084	45,160	0.3%

PLN '000	State as at		Change	
	30.06.2018	31.12.2017	PLN '000	%
	17,075,550	**16,853,090**	**222,460**	**1.3%**
Letters of credit				
Import letters of credit issued	180,865	148,607	32,258	21.7%
Export letters of credit confirmed	-	19,376	(19,376)	(100.0%)
	180,865	**167,983**	**12,882**	**7.7%**

The provisions of contingent liabilities and guarantees granted by the Bank are established. As at 30 June, 2018 the amount of provisions of granted contingent liabilities and guarantees was PLN 33,522 thousand (31 December 2017: PLN 12,789 thousand).

Guarantees granted include guarantees of credit repayment for payer, other guarantees of payment, guarantees on advance payments, guarantees on properly performance, tender guarantees and endorsements on bills.

PLN '000	State as at		Change	
	30.06.2018	31.12.2017	PLN '000	%
Contingent liabilities and guarantees received				
Financial	-	-	-	-
Guarantees	19,212,636	18,142,380	1,070,256	5.9%
	19,212,636	**18,142,380**	**1,070,256**	**5.9%**

15. Information about shareholders

The table below presents the list of shareholders that hold at both 30 June 2018 and the day of publishing this standalone financial statement for the first half of 2018 directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital.

	Value of shares ('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**

In the first half of 2018 or during the period from publishing last interim report for the first quarter 2018 to publishing this standalone financial statement for the first half of 2018, the structure of major shareholdings of the Bank has not undergone any changes.

16. Information on pending court proceedings

In the first half of 2018 there was no single proceeding regarding Bank's receivables or liabilities, the value of which would equal to at least 10% of Bank's equity, pending in court, public administration authority or an arbitration authority.

In the first half of 2018 the total value of all legal proceedings regarding receivables with the participation of the Bank did not exceed 10% of Bank's equity.

In the first half of 2018 the total value of all legal proceedings regarding liabilities with the participation of the Bank did not exceed 10% of Bank's equity.

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

In the case of legal proceedings involving the risk of cash outflow due to fulfillment of the obligation, the Bank recognized adequate provisions.

As at 30 June 2018, the Bank was among others a party to 18 court proceedings associated directly with derivative transactions that have not been legally terminated: in 11 proceedings the Bank acted as a defendant and in 7 as a plaintiff. Additionally, during this time, the Bank was involved in closing proceedings that was legally terminated in the Banks favor (the Bank was 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 the proceeding initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa Europay payment system operators and banks - issuers of Visa cards and Europay/ Eurocard/ Mastercard and one of the addressee of the President of UOKiK's decision in the case. This procedure applies to practices limiting the competition on payment-cards market in Poland, by consisting in the joint determination of 'interchange fees' for transactions made by cards of Visa and Europay / Eurocard / Mastercard as well as limiting the access to market for operators who do not belong to the unions of card issuers and against whom proceedings have been initiated. The President of UOKiK's decision was a 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 up at 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. The next hearing is set for the 18 October 2018. In the first quarter of 2018, the Bank received the reimbursed of the fine which was recognized in the profit and loss.

Due to court ended with the final judgment the Bank did not make any significant settlement in the first half 2018 .

17. 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	**176**	**72**	**174**	**48**
Deposits				
Current accounts	9,172	2,703	9,246	3,508
Term deposits	6,022	-	7,935	450
	15,194	**2,703**	**17,181**	**3,958**

As at 30 June 2018 and 31 December 2017, no loans or guarantees were granted to members of the Management Board and the Supervisory Board.

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

Staff expenses for the first half of 2018 include costs of remuneration and awards for current and former members of the Management Board amounting to PLN 9,651 thousand (for the first half of 2017: PLN 8,669 thousand).

From the scope of work relationship, among contracts of employment between Bank and Members of Management Board, only in one case of one Member of Management Board the contract includes a provision on the financial compensation in 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, in the period of 12 months (in 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 the compensation to the member of the Management Board.

18. Related parties

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

Within its normal course of business activities, the Bank enters into transactions with related entities, in particular with entities of Citigroup Inc. and subsidiaries.

The transactions with related entities result from present Bank's activity and 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 subsidiaries

The receivables and liabilities towards subsidiaries are as follows

PLN '000	**30.06.2018**	**31.12.2017**
Receivables		
Overdraft facilities	5	**21**
	5	**21**
Receivables		
Balance at the beginning of period	21	5
Balance at the end of period	5	21
Deposits		
Current accounts	105,770	80,094
Term deposits	158,930	141,895
	264,700	**221,989**
Deposits		
Balance at the beginning of period	221,989	256,593
Balance at the end of period	264,700	221,989
Contingent liabilities granted		
Credit lines granted	80,548	80,550

PLN '000	**01.01. - 30.06. 2018**	**01.01. - 30.06. 2017**
Interest and commission income	5,003	5,443
Interest and commission expense	905	1,266
Other operating income	1,149	1,431

On 30 June 2018 and 31 December 2017 there were no write-offs due to value loss of receivables and contingent liabilities granted.

Transactions with other Citigroup Inc. subsidiaries

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

PLN '000	**30.06.2018**	**31.12.2017**
Receivables	418,796	347,515
Deposits	-	-
Liabilities, including:	1,330,090	1,032,018
Deposits*	255,308	220,304
Received credits		
Derivative		
Assets held-for-trading	594,502	446,178
Liabilities held-for-trading	875,976	716,669
Liabilities on hedge derivatives	-	17,507
Contingent liabilities granted	466,270	373,018
Contingent liabilities received	49,903	71,587
Contingent derivative transactions (liabilities granted/received), including:	55,531,627	40,741,781
Interest rate instruments	28,862,578	25,946,494
Currency instruments	25,564,440	14,591,578
Securities transactions	1,018,317	100,674
Commodity transactions	86,292	103,035

PLN '000	30.06.2018	31.12.2017

**Including deposits of parent undertaking in amount of PLN 9 thousand (31 December 2017: PLN 7 thousand)*

PLN '000	01.01. – 30.06. 2018	01.01. – 30.06. 2017
Interest and commission income*	15,383	20,972
Interest and commission expense*	16,662	19,828
General administrative expenses	79,554	98,792
Other operating income	3,376	4,712

**Interest and commission income in amount of PLN 800 thousand (for the first half of 2017: PLN 734 thousand) and interest and commission expense in amount of PLN 2 thousand (for the first half of 2017 PLN 0 thousand) refer to parent undertaking.*

The Bank receives income and incurs costs on derivative transactions with entities of Citigroup Inc. in order to hedge market risk. These are back to back derivative transactions, opposite to transactions with Bank's other clients and closing Bank's own position that is related to the risk of market parameter (exchange rate, FX), whereas the stable part e.g. the margin cannot be closed due to the risk involved in those transactions On 30 June 2018 net balance valuation of transactions on derivatives amounted to PLN (281,474) thousand (31 December 2017: PLN (287,998) thousand). The Bank runs a compression of derivative transaction portfolios' periodically. It is one of the risk-mitigation technique recommended by the "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 Regulation this in particular applies to the portfolios exceeding 500 derivative transactions.

Furthermore, the Bank incurs costs and receives income from agreements between Citigroup Inc. entities and the Bank, regarding the provision of mutual services.

In the first half of 2018 the costs incurred and accrued (including VAT reflected in the Bank's costs) in the form the agreements were connected, in particular, with costs of services regarding the maintenance of Bank's information systems and advisory support and are presented in the General administrative expenses and other operating expenses; income was related to data processing and other services rendered by the Bank and is presented in the Other operating income.

In first half of 2018 there was a capitalization of investments regarding efforts over modification of functionality of IT Bank's systems'. Total value of payments to Citigroup Inc. units amounted to PLN 484 thousand (in 2017: PLN 79,805 thousand).

19. Other significant information

Personal changes in the Bank's bodies

On 29 January 2018 Witold Zieliński rendered resignation to the function of Vice-president of the Management Board.

On 1 March 2018 Czesław Piasek gave resignation to the function of Member of the Supervisory Board.

On 21 March 2018 Natalia Bożek was appointed Vice-president of the Management Board by the Supervisory Board for a three-year period.

20. Major events after the balance sheet date not included in the financial statements

After 30 June 2018 there were no major events undisclosed in these financial statements, that could have a significant influence on the net result of the Bank.

Members of Management Board signatures

22.08.2018	Sławomir S. Sikora	The President of Management Board	
....	....	....	....
Date	Name	Position/Function	Signature
22.08.2018	Natalia Bożek	Vice-president of Management Board	
....	....	....	....
Data	Name	Position/Function	Signature
22.08.2018	Maciej Kropidłowski	Vice-president of Management Board	
....	....	....	....
Data	Name	Position/Function	Signature
22.08.2018	David Mouillé	Vice-president of Management Board	
....	....	....	....
Data	Name	Position/Function	Signature
22.08.2018	Barbara Sobala	Vice-president of Management Board	
....	....	....	....
Data	Name	Position/Function	Signature
22.08.2018	Katarzyna Majewska	Member of Management Board	
....	....	....	....
Data	Name	Position/Function	Signature