TRANSLATION

2018 Semi-annual Report of the Capital Group of Bank Handlowy w Warszawie S.A.

August 2018

SELECTED FINANCIAL DATA	In PLN '000		In EUR '000***	
	First half of 2018	First half of 2017	First half of 2018	First half of 2017
	01.01. - 30.06. 2018	01.01. - 30.06. 2017	01.01. - 30.06. 2018	01.01. - 30.06. 2017
Condensed Interim Consolidated Financial Statements data				
Interest income	618,310	642,219	145,845	151,203
Fee and commission income	323,199	332,082	76,235	78,185
Profit before tax	427,063	276,070	100,734	64,997
Net profit	328,212	200,639	77,418	47,238
Comprehensive income	366,231	284,587	86,385	67,003
Changes in net cash	44,396	(95,784)	10,472	(22,551)
Total assets*	44,101,210	43,037,596	10,111,246	10,318,539
Amounts due to banks*	2,067,750	1,568,376	474,081	376,028
Amounts due to customers*	32,499,621	32,136,698	7,451,307	7,704,979
Equity	6,692,523	6,482,825	1,534,419	1,533,852
Share capital	522,638	522,638	119,827	123,657
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	51.22	49.62	11.74	11.74
Total capital ratio (in %)*	17.1	17.7	17.1	17.7
Earnings per share (PLN/EUR)	2.51	1.54	0.59	0.36
Diluted earnings per share (PLN/EUR)	2.51	1.54	0.59	0.36
Condensed Interim Stand-alone Financial Statements data				
Interest income	617,812	641,594	145,728	151,056
Fee and commission income	304,299	299,886	71,777	70,605
Profit before tax	440,891	286,710	103,996	67,502
Net profit	342,497	213,930	80,787	50,367
Comprehensive income	380,542	298,071	89,761	70,177
Changes in net cash	44,399	(95,765)	10,473	(22,547)
Total assets*	43,904,775	42,863,964	10,066,209	10,276,910
Amounts due to banks*	2,067,637	1,568,261	474,055	376,001
Amounts due to customers*	32,534,140	32,172,441	7,459,221	7,713,549
Equity	6,642,569	6,430,109	1,522,966	1,521,379
Share capital	522,638	522,638	119,827	123,657
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	50.84	49.21	11.66	11.64
Total capital ratio (in %)*	16.9	17.4	16.9	17.4
Earnings per share (PLN/EUR)	2.62	1.64	0.62	0.39
Diluted earnings per share (PLN/EUR)	2.62	1.64	0.62	0.39
Declared or paid dividends per share (PLN/EUR)**	4.11	4.53	0.94	1.07

**Comparative data according to balance sheet as at 31 December 2017.*

***The presented ratios relate respectively to dividend paid in 2018 from the distribution of 2017 profit and dividend paid in 2017 from the appropriation of the 2016 profit.*

****The following exchange rates were applied to convert PLN to EUR: for the statement of financial position items- average NBP exchange rate as at 30 June 2018 EUR 1 = PLN 4.3616 (as at 31 December 2017: PLN 4,1709; as at 30 June 2017: PLN 4.2265); for the income statement, the statement of comprehensive income and the cash flow statement items – the rate is calculated as the arithmetic mean of NBP exchange rates prevailing as at the last day of each month of the first half of 2018: EUR 1 = PLN 4.2395 (in the first half of 2017: PLN 4.2474).*

TRANSLATION

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

AUGUST 2018

CONTENTS

Condensed consolidated income statement

For a period		II quarter	I half of the year	II quarter*	I half of the year*
		01.04. - 30.06. 2018	01.01. - 30.06. 2018	01.04. - 30.06. 2017	01.01. - 30.06. 2017
PLN '000	Note				
Interest income	6	305,753	618,310	329,889	642,219
Similar income	6	11,229	26,654	n/a	n/a
Interest expense and similar charges	6	(46,387)	(97,203)	(65,816)	(123,870)
Net interest income	**6**	**270,595**	**547,761**	**264,073**	**518,349**
Fee and commission income	7	159,684	323,199	176,740	332,082
Fee and commission expense	7	(20,869)	(42,787)	(21,367)	(42,416)
Net fee and commission income	**7**	**138,815**	**280,412**	**155,373**	**289,666**
Dividend income		**8,892**	**8,950**	**8,948**	**8,948**
Net income on trading financial instruments and revaluation	**8**	**95,187**	**192,743**	**80,296**	**152,931**
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]	**25**	**6,316**	**6,792**	**3,085**	**3,377**
Net gain/(loss) on hedge accounting		**-**	**3,682**	**(1,027)**	**3,554**
Other operating income	9	6,171	22,770	9,387	16,922
Other operating expense	9	(7,512)	(13,871)	(6,589)	(18,095)
Net other operating income and expense	**9**	**(1,341)**	**8,899**	**2,798**	**(1,173)**
General administrative expenses	**10**	**(261,581)**	**(588,970)**	**(271,118)**	**(597,442)**
Depreciation and amortization		**(18,681)**	**(37,361)**	**(18,833)**	**(35,479)**
Profit on sale of other assets		**(604)**	**(836)**	**28**	**30**
Net impairment on financial assets and provisions for off–balance sheet commitments[c]	**11**	**(26,992)**	**(32,524)**	**(13,292)**	**(42,706)**
Operating income		**253,098**	**468,741**	**221,206**	**315,916**
Share in net profits of entities valued at equity method		**249**	**255**	**263**	**265**
Tax on some financial institutions		**(22,935)**	**(41,933)**	**(20,518)**	**(40,111)**
Profit before tax		**230,412**	**427,063**	**200,951**	**276,070**
Income tax expense	**12**	**(48,042)**	**(98,851)**	**(42,968)**	**(75,431)**
Net profit		**182,370**	**328,212**	**157,983**	**200,639**
Including:					
Net profit attributable to Bank's shareholders (in PLN)			328,212		200,639
Weighted average number of ordinary shares (in pcs)			130,659,600		130,659,600
Earnings per share (in PLN)			2.51		1.54
Diluted net earnings per share (in PLN)			2.51		1.54

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

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

Explanatory notes on pages 11-61 are integral part of the condensed interim consolidated financial statements.

Condensed consolidated statement of comprehensive income

For a period		II quarter	I half of the year	II quarter*	I half of the year*
		01.04. - 30.06. 2018	01.01. - 30.06. 2018	01.04. - 30.06. 2017	01.01. - 30.06. 2017
PLN '000	Note				
Net profit		**182,370**	**328,212**	**157,983**	**200,639**
Other comprehensive income, that might be subsequrently reclassified to profit or loss					
Changes in value of financial assets measured at fair value through other comprehensive income[d]	13	(49,021)	37,787	50,301	82,308
Currency translation differences		185	232	10	(243)
Other comprehensive income, that cannot be subsequrently reclassified to profit or loss					
Net actuarial profits on specific services program valuation		-	-	1,883	1,883
Other comprehensive income net of tax		**(48,836)**	**38,019**	**52,194**	**83,948**
Total comprehensive income		**133,534**	**366,231**	**210,177**	**284,587**

Including:					
Comprehensive income attributable to Bank's shareholders			366,231		284,587

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

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

Explanatory notes on pages 11-61 are integral part of the condensed interim consolidated financial statements.

Condensed consolidated statement of financial position

PLN '000	**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	14	961,204	836,774
Financial assets held-for-trading	15	3,532,588	2,179,925
Debt financial asstes measured at fair value through other comprehensive income[e]	16	15,708,747	17,439,439
Equity investments valued at equity method		10,676	10,664
Equity and other instruments measured at fair value through income statement[f]		49,037	26,500
Amounts due from customers	17	21,029,880	19,849,033
Tangible fixed assets		350,408	376,775
Intangible assets		1,373,867	1,352,413
Current income tax receivables		841	667
Deferred tax asset	18	208,219	175,904
Other assets	19	366,177	325,448
Non-current assets held-for-sale	20	-	1,928
Total assets		**44,101,210**	**43,037,596**
LIABILITIES			
Amounts due to banks	21	2,067,750	1,568,376
Financial liabilities held-for-trading	15	1,618,568	1,353,215
Hedging derivatives		-	50,191
Amounts due to customers	22	32,499,621	32,136,698
Provisions		38,037	18,300
Current income tax liabilities		50,530	52,340
Other liabilities	23	1,134,181	919,593
Total liabilities		**37,408,687**	**36,098,713**
EQUITY			
Ordinary shares		522,638	522,638
Share premium		3,003,290	3,003,969
Revaluation reserve		27,873	(9,118)
Other reserves		2,886,750	2,895,598
Retained earnings		251,972	525,796
Total equity		**6,692,523**	**6,938,883**
Total liabilities and equity		**44,101,210**	**43,037,596**

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

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

***f.** Corresponds to the 'Equity investments available for sale' in accordance with IAS 39.*

Explanatory notes on pages 11-61 are integral part of the condensed interim consolidated financial statements.

Condensed consolidated statement of changes in equity

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2018	**522,638**	**3,003,969**	**(9,118)**	**2,895,598**	**525,796**	-	**6,938,883**
Impact of adopting IFRS 9**	-	-	(796)	-	**(74,784)**	-	(75,580)
Restated balance as at 1 January 2018	522,638	3,003,969	(9,914)	2,895,598	**451,012**	-	6,863,303
Total comprehensive income, including:	-	-	37,787	232	328,212	-	366,231
Net profit	-	-			328,212	-	328,212
Currency translation differences from the foreign operations' conversion	-	-		232	-	-	232
Net valuation of financial assets measured at fair value through other comprehensive income[g]	-	-	37,787	-	-	-	37,787
Dividends to be paid	-	-	-	-	(537,011)	-	(537,011)
Transfer to capital	-	(679)	-	(9,080)	9,759	-	-
Balance as at 30 June 2018	**522,638**	**3,003,290**	**27,873**	**2,886,750**	**251,972**	**-**	**6,692,523**

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2017	**522,638**	**3,003,082**	**(214,843)**	**2,885,044**	**594,529**	**-**	**6,790,450**
Total comprehensive income, including:	-	-	82,308	1,640	200,639	-	284,587
Net profit	-	-	-	-	200,639	-	200,639
Currency translation differences from the foreign operations' conversion	-	-	-	(243)	-	-	(243)
Net valuation of available-for-sale financial assets	-	-	82,308	-	-	-	82,308
Net actuarial profits on specific services program valuation	-	-	-	1,883	-	-	1,883
Dividends to be paid	-	(129)	-		(592,083)	-	(592,212)
Transfer to capital	-	1,016	-	11,201	(12,217)	-	-
Balance as at 30 June 2017*	**522,638**	**3,003,969**	**(132,535)**	**2,897,885**	**190,868**	**-**	**6,482,825**

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2017	**522,638**	**3,003,082**	**(214,843)**	**2,885,044**	**594,529**	**-**	**6,790,450**
Total comprehensive income, including:	-	-	205,725	(648)	535,566	-	740,643
Net profit	-	-	-	-	535,566	-	535,566
Currency translation differences from the foreign operations' conversion	-	-	-	(314)	-	-	(314)
Net valuation of available-for-sale financial assets	-	-	205,725	-	-	-	205,725
Net actuarial profits on specific services program valuation	-	-	-	(334)	-	-	(334)
Dividends paid	-	(129)	-	-	(592,081)	-	(592,210)
Transfer to capital	-	1,016	-	11,202	(12,218)	-	-
Balance as at 31 December 2017*	**522,638**	**3,003,969**	**(9,118)**	**2,895,598**	**525,796**	**-**	**6,938,883**

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

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

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

Explanatory notes on pages 11-61 are integral part of the condensed interim consolidated financial statements.

Condensed consolidated 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	**328,212**	**200,639**
II. Adjustments:	**(210,156)**	**(653,179)**
Current and deferred income tax recognized in income statement	98,851	75,431
Share in net profits/(losses) of entities valued at equity method	(255)	(265)
Depreciation expense	37,361	35,479
Net impairment due to financial assets value loss	35,045	38,960
Net provisions (recoveries)	(2,966)	4,451
Net interest income	(547,761)	(518,349)
Dividend income	(8,950)	(8,948)
Profit/loss on sale of fixed assets	838	(3)
Net unrealized exchange differences	(6,094)	4,674
Equity and other investment measured at fair value though the income statement	(6,792)	-
Other adjustments	(1,003)	2,447
Change in amounts due from banks	(128,431)	(61,606)
Change in amounts due from customers	(1,350,058)	(899,623)
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	(1,326,901)	1,889,653
Change in derivative securities	-	11,387
Change in other assets	(50,383)	(289,431)
Change in amounts due to banks	523,860	358,721
Change in amounts due to customers	361,846	(1,285,738)
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	233,142	301,891
Interest received	**732,749**	**654,865**
Interest paid	**(95,892)**	**(125,937)**
Income tax paid	**(124,176)**	**(51,654)**
III. Net cash flows from operating activities	**630,737**	**24,734**
B. Investing activities		
Inlows		
Disposal of tangible fixed assets	22	120
Disposal of fixed assets/liabilities held-for-sale	1,068	-
Received dividends	773	1,206
Outflows		
Purchase of tangible fixed assets	(29,431)	(21,744)
Purchase of intangible assets	(3,370)	(34,803)
Net cash flows from investing activities	**(30,938)**	**(55,221)**
C. Financing activities		
Inflows		
Paid dividends	(537,011)	(324)
Repayment of long-term loans from financial sector	(25,445)	(55,882)
Net cash flows from financing activities	**(562,456)**	**(56,206)**
D. Exchange rates differences resulting from cash and cash equivalent calculation	**7,053**	**(9,091)**
E. Net increase/(decrease) in cash and cash equivalent	**44,396**	**(95,784)**
F. Cash and cash equivalent at the beginning of reporting period	**514,585**	**672,882**
G. Cash and cash equivalent at the end of reporting period (see note 28)	**558,981**	**577,098**

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

Explanatory notes on pages 11-61 are integral part of the condensed interim consolidated financial statements.

Supplementary notes to the condensed interim consolidated financial statements

1. General information about the Bank andthe Capital Group of Bank Handlowy w Warszawie S.A. ("The Group")

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 and its subsidiaries are expected to continue the business activity in the forseeable future.

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

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

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

These condensed interim consolidated financial statements present financial data of the Capital Group of Bank Handlowy w Warszawie S.A., that is composed of Bank Handlowy w Warszawie S.A. as the parent company and its subsidiaries: Dom Maklerski Banku Handlowego S.A., Handlowy-Leasing Sp. z o.o., Handlowy Investmens S.A., PPH Spomasz Sp. z o.o. w likwidacji and Handlowy Inwestycje Sp. z o.o.

In the first half of 2018 there were no changes in the structure of Group's entities.

The Group consists the Bank and of the following subordinated entities:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		30.06.2018	31.12.2017
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A. („DMBH")	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. in liquidation	Warsaw	100.00	100.00
Entities valued at equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

2. Declaration of conformity

These condensed interim consolidated 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 consolidated financial statements of the Group for the financial year ended 31 December 2017.

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, as amended) 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 consolidated interim financial statements were approved by the Management Board on 22 August 2018.

3. Significant accounting policies

The interim condensed consolidated financial statements of the Group for the first quarter of 2018 have been prepared in accordance with accounting principles adopted and summarized in the annual consolidated financial statements of the Group 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 consolidated financial statements of the Group have been prepared for the period from 1 January 2018 to 30 June 2018 and for the consolidated 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 consolidated 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 financial assets measured at fair value through other comprehensive income and other equity investments (minority shareholdings). 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 consolidated financial statements of the Group 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 consolidated financial statements of the Group 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 Group:

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

Classification and measurement of financial instruments

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

- Standard introduces three financial instruments categories:

  - financial assets measured at amortized cost,

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

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

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

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

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

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

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

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

Business model

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

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

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

Contractual cash flows features

Group analyzed thoroughly contractual stipulations and practices in respect of consideration formulas in order to conclude whether contractual cash flows are solely payments of principal and interest (SPPI test). In result, in specific cases using benchmark test (analysis of mismatch of interest rate type and its reset frequency), Group, substantially, has identified financial assets that failed SPPI test. However, Group is in 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 Group with multiplier higher than 1 results from current and past level of maximum acceptable interest set by law. In this financial statement, Group presents such exposures as measured at amortized cost. The Group 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 Group did not identify changes in the way of valuation of financial assets resulting from contractual cash flows features.

Equity and other investments measured at fair value though the 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. Group decided to record changes in fair value in profit and loss.

Hedge accounting

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

Impairment

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

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

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

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

- Expected exposure life period,
- Occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, (assuming that those changes does not imply deterioration in future payment flows).

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 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 (EPP, LOP, ALOP) and
- Renewable credit lines.

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

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

Consolidated financial statement's line as at 31.12.2017	Consolidated financial statement's line as at 01.01.2018	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39	IFRS 9 implementation impact	Carrying amount IFRS 9
Assets	**Assets**					
Amounts due from banks and customers	Amounts due from banks and customers	Amortised cost	Amortised cost	20,685,807	(87,360)	20,598,447
Equity investments available-for-sale	Equity and other investments measured at fair value through income statement	Purchase price less impairment	Fair value through profit and loss	26,500	16,064	42,564
Deferred income tax asset	Deferred income tax asset	-	-	175,904	18,602	194,506
Total assets				**20,888,211**	**(52,694)**	**20,835,517**

Consolidated financial statement's line as at 31.12.2017	Consolidated financial statement's line as at 01.01.2018	Measurement category IAS 39	Measurement category IFRS 9	IFRS 9 Carrying amount IAS 39	IFRS 9 implementation impact	Carrying amount IFRS 9
Liabilities	**Liabilities**					
Provisions for granted off-balance sheet commitments	Provisions for granted off-balance sheet commitments	Amortised cost	Amortised cost	12,789	22,886	35,675
Total liabilities				**12,789**	**22,886**	**35,675**
Group's Capital				**6,938,883**	**(75,580)**	**6,863,303**

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

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

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 Group classified minority shareholdings as Equity investment available-for-sale and measured them at cost decreased by impairment losses.

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

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

Additional disclosures related with initial application of IFRS 9

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

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

PLN '000		Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39	Carrying amount IFRS 9
Consolidated financial statement's line as at 31.12.2017	**Consolidated financial statement's line as at 01.01.2018**				
Financial assets					
Cash and balances with the Central Bank	Cash and balances with the Central Bank	Amortised cost	Amortised cost	462,126	462,126
Amounts due from banks	Amounts due from banks	Amortised cost	Amortised cost	836,774	835,538
Financial assets held-for-trading	Financial assets held-for-trading	Fair value through profit and loss	Fair value through profit and loss (mandatory)	2,179,925	2,179,925
Debt securities available for sale	Debt financial assets measured at fair value through other comprehensive income	Fair value through other comprehensive income	Fair value through other comprehensive income	17,439,439	17,439,439
Equity investments	Equity instruments measured at fair value through income statement	Purchase price less impairment	Fair value through profit and loss	26,500	42,564
Amounts due from customers	Amounts due from customers	Amortised cost	Amortised cost	19,849,033	19,762,909
Other assets (financial)	Other assets (financial)	Amortised cost	Amortised cost	263,119	263,119
Financial liabilities					
Amounts due to banks	Amounts due to banks	Amortised cost	Amortised cost	1,568,376	1,568,376
Financial liabilities held-for-trading	Financial liabilities held-for-trading	Fair value through profit and loss	Fair value through profit and loss (mandatory)	1,353,215	1,353,215
Hedging derivatives	Hedging derivatives	Fair value through profit and loss	Fair value through profit and loss (mandatory)	50,191	50,191
Amounts due to customers	Amounts due to customers	Amortised cost	Amortised cost	32,136,698	32,136,698
Provisions for granted off-balance sheet commitments	Provisions for granted 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
Consolidated income statement's line for the I half of 2017	**Consolidated 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	6,792
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	(42,706)	(32,524)

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

PLN '000	Measurement category IAS 39	Reclassifications	Measurements	Measurement category MSSF 9
Financial assets				
Amortised cost				
Amounts due from banks				
Opening balance	836,774			
Measurement		-	(1,236)	
Closing balance				835,538
Amounts due from customers				
Opening balance	19,849,033			
Measurement		-	(86,124)	
Closing balance				19,762,909
Available-for-sale				
Debt securities				
Opening balance	17,439,439			
Reclassification to fair value through other comprehensive income		(17,439,439)	-	
Measurement		-	-	
Closing balance				-
Equity investments and others				
Opening balance	26,500			
Fair value through profit and loss		(26,500)	-	
Measurement		-	-	
Closing balance				-
Fair value through other comprehensive income				
Debt securities				
Opening balance	-			
Reclassification from available for sale		17,439,439	-	
Measurement		-	-	
Closing balance				17,439,439
Fair value through profit and loss				
Equity investments and others				
Opening balance	-			
Reclassification from available for sale		26,500	-	
Measurement		-	16,064	
Closing balance				42,564
Financial liabilities				
Provisions for granted 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 Group recognized the gap among book value– IAS 39 and value- IFRS 9 using valuation at fair value.

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

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

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

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

** The item 'Reclassifications' is connected with the definition change of gross carrying amount to IFRS 9 and includes the difference between impairment allowance established for accrued interest from receivables with recognized impairment to the moment of impairment declaration 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 commissions recognized by the Group:

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

   a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

b) the Group can identify each party's rights regarding the goods or services to be transferred;
c) the Group can identify the payment terms for the goods or services to be transferred;
d) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
e) it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

2. Identifying performance obligations

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

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

3. Determining the transaction price

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

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

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

5. Revenue recognition

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

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

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

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

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

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

In other circumstances, revenue is recognized immediately.

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

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

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

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

Basis of consolidation

Subsidiaries – definition

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

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

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

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

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

Foreign currency

The 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 Group classifies financial instruments to the following categories:

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

- other financial liabilities.

Financial assets measured at fair value through profit and loss

The category comprises:

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

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

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

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

Financial assets measured at amortized cost (loans and receivables)

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

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Purchased or originated credit impaired assets (POCI)

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

Financial assets measured at fair value through other comprehensive income

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

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial liabilities measured at fair value through profit and loss

The category comprises derivative liabilities which are not hedging instruments and it comprises short sale liabilities.

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 28 "Additional information to the statement of cash flows ".

Recognition, derecognition and insignificant modifications

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

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

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

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

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

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

If there is a change in cash flows of financial assets containing the repayment schedule measured at amortized cost that results from annex to the contract, the Group recalculates gross balance sheet value of financial asset and recognizes 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.

Valuation

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

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

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

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

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

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

Dividends equity investments are recognized in profit and loss when the entity's right to receive payment is established.

Hedge accounting

The Group 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 consolidated 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 Group doesn't offset any financial assets and liabilities.

Impairment of assets measured at amortized cost

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

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

- Stage 1: Credit exposures that have not had a significant increase in credit risk since initial recognition
- Stage 2: Credit exposures that have experienced a significant increase in credit risk since initial recognition
- Stage 3: Credit exposures with credit loss that has already been suffered on the assets

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

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

Objective evidences of impairment of the financial assets or a group of financial assets includes obtained information concerning events, which are specified in note 5 'Risk management'.

Non-recoverable loans (i.e., loans for which the Group does not expect any future cash flows and that may be treated as tax deductible costs under separate tax regulations or that were unconditionally written off under an agreement with the customer) are, on the basis of Group's decision, written down against impairment allowances. If a written-down amount is subsequently recovered, the amount of income is presented in "Net impairment on financial assets and provisions for 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 Client's restructuring and its exposure does not always imply a loss of value (e.g. in the case of obtaining appropriate compensations). Impaired exposures are restructured exposures with forced restructuring.

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

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

Impairment allowances for expected credit losses

In order to determine the Stage of reported expected credit loss, exposure should be assessed if there was a credit loss that has already been suffered on the assets (Stage 3) or not (Stages 1 and 2). Choice between Stage 1 and 2 is determined by a significant increase in credit risk since initial recognition.
The impairment allowances for expected credit losses are calculated using statistical parameters for the groups of assets combined in portfolios having similar credit risk characteristics. In the financial statements, the Group corrects credit exposure with the value of expected credit losses impairment allowances.

Impairment allowances for individually significant assets

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

If the present value of the estimated cash flows 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 and 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 Group uses internal methodology to define default probability (PD parameter), loss value at default (LGD parameter) and exposure value at the time of default (EAD parameter).

Interest income and interest expenses and similar income

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

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

The effective interest rate applies for the gross carrying amount of financial asset, except for purchased or 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 Group renders financial services to its customers. The Group classifies its commission into the following categories:

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

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

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

For other commissions Group performs:

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

If Group transfers control of service over time and, therefore, satisfies a performance obligation and the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, then fees are recognised over time in proportion to the completion of the service in fee income, In other cases the fees are recognised at a point in time when services have been completed and are presented in fee income.

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

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

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

Accounting estimates and judgments

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

Fair value of derivatives

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

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

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

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

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

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

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

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

Impairment of loans

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

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

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

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

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

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

Impairment of goodwill

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

Employee benefits

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

4. Segment reporting

An operating segment is a separable component of the Group engaged in business activity, generating income and expenses (including those on intragroup transactions between segments), whose operating results are regularly reviewed by the Management Board of parent entity, the chief operating decision maker of the Group, in order to allocate resources and assess its performance.

The Group is managed in two main operating segments – Institutional Banking and Consumer Banking. The valuation of segment’s assets and liabilities as well as calculation of its financial results is based on the Group’s accounting policies, including intragroup transactions between segments.

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

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

Institutional Banking

Within the Institutional Banking segment the Group offers products and provides services to commercial entities, municipalities and public sector. Apart from traditional banking services covering credit and deposit activities, the segment provides services in the area of cash management, trade finance, leasing, brokerage and custody services in respect of securities. It also offers treasury products on financial and commodity markets. In addition, the segment offers the investment banking services on the local and international capital markets, including advisory services as well as obtaining and underwriting financing through public and non-public offerings. The activities also comprise proprietary transactions in the equity, debt and derivative instruments' markets.

Consumer Banking

Within the Consumer Banking segment the Group provides products and financial services to individual clients, micro enterprises and individual entrepreneurs that are within the framework of Citibusiness offer. Besides managing bank accounts and providing extensive credit and deposit products, the Group offers cash loans, mortgage loans and credit cards. It also provides asset management services and acts as an agent in investment and insurance products sale.

Consolidated income statement by business segment

For the period	01.01 – 30.06.2018			01.01 – 30.06.2017*		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Net interest income	251,723	296,038	547,761	233,289	285,060	518,349
Internal interest income, including:	(17,305)	17,305	-	(13,789)	13,789	-
Internal income	-	17,305	17,305	-	13,789	13,789
Internal expenses	(17,305)	-	(17,305)	(13,789)	-	(13,789)
Net fee and commission income	144,988	135,424	280,412	146,807	142,859	289,666
Dividend income	1,032	7,918	8,950	1,228	7,720	8,948
Net income on financial instruments and revaluation	178,677	14,066	192,743	137,230	15,701	152,931
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income**	79,193	-	79,193	15,861	-	15,861
Net gain/(loss) on equity and other instruments measured at fair value through income statement***	6,792	-	6,792	3,377	-	3,377
Net gain/(loss) on hedge accounting	3,682	-	3,682	3,554	-	3,554
Net other operating income	5,016	3,883	8,899	10,513	(11,686)	(1,173)
General administrative expenses	(270,941)	(318,029)	(588,970)	(271,575)	(325,867)	(597,442)
Depreciation and amortization	(9,180)	(28,181)	(37,361)	(9,850)	(25,629)	(35,479)
Profit on sale of other assets	(836)	-	(836)	30	-	30
Net impairment loss on financial assets and provisons for off-balance sheet commitments ****	(7,254)	(25,270)	(32,524)	(11,759)	(30,947)	(42,706)
Operating income	**382,892**	**85,849**	**468,741**	**258,705**	**57,211**	**315,916**
Share in net profits/(losses) of entities valued at equity method	255	-	255	265	-	265
Tax on some financial institutions	(30,925)	(11,008)	(41,933)	(29,349)	(10,762)	(40,111)
Profit before tax	**352,222**	**74,841**	**427,063**	**229,621**	**46,449**	**276,070**
Income tax expense			(98,851)			(75,431)
Net profit			**328,212**			**200,639**

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

As at:	30.06.2018			31.12.2017*		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Total assets	**36,833,316**	**7,267,894**	**44,101,210**	**35,906,089**	**7,131,507**	**43,037,596**
Total liabilities and shareholders equity, including:	**30,551,037**	**13,550,173**	**44,101,210**	**30,134,111**	**12,903,485**	**43,037,596**
Liabilities	25,413,173	11,995,514	37,408,687	24,799,594	11,299,119	36,098,713

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

5. Risk Management

Credit Risk

The main purpose of risk management in the Group is ensuring both high quality of credit portfolio and business activity stabilization through minimizing the risk of credit losses. Credit risk management is executed based on the policies and procedures that consistently and clearly define and communicate standards for risk identification, measurement, acceptance, control, monitoring and reporting.

The Group manages its exposure by identifying and monitoring of limits, set within the capital limits and liquidity norms, taking into account the constraints of external regulations.

The Group monitors the concentration of credit exposures on an ongoing basis, trying to avoid a situation where the portfolio depends on a small number of clients. At the end of June 2018, the Group's credit exposure to non-bank entities did not exceed the limit of concentration required by law.

In the practice of credit risk management in the Bank, grouping of financial assets takes place within groups representing the level of credit risk of a given instrument. For receivables without impairment, in the area of retail banking grouping takes place according to the periods of delinquent days, while in the area of institutional banking, the Bank groups financial assets into risk rating ranges.

Concentration of exposures – non-bank clients

PLN '000	30 Jun 2018			31 Dec 2017		
	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure
CLIENT 1	1,000,000	-	1,000,000	1,000,000	-	1,000,000
CLIENT 2	803,202	183,707	986,909	828,101	115,658	943,759
GROUP 3	474,360	454,079	928,439	251,522	475,980	727,502
GROUP 4	44,854	798,289	843,143	261,317	574,317	835,634
CLIENT 5	191,400	558,600	750,000	191,400	558,600	750,000
GROUP 6	536,194	183,020	719,214	557,053	83,530	640,583
GROUP 7	109,053	523,580	632,633	18	618,348	618,366
CLIENT 8	396,005	204,680	600,685	396,000	205,185	601,185
CLIENT 9	600,000	-	600,000	600,000	-	600,000
GROUP 10	229,700	338,244	567,944	82,161	60,017	142,178
GROUP 11	-	-	-	74,439	495,376	569,815
Total	**4,384,768**	**3,244,199**	**7,628,967**	**4,242,011**	**3,187,011**	**7,429,022**

* *Excludes exposures due to shares and other securities.*

*** The group is understood as a capital group composed of entities in relation to which the Group has involvement.*

Concentration of exposure to industries *

Industry according to PKD	30 Jun 2018		31 Dec 2017	
	PLN'000	%	PLN'000	%
Wholesale trade, except of motor vehicles	4,770,469	18.1%	4,458,076	18.3%
Financial service activities, excluding insurance and pension funds	3,141,953	11.9%	3,039,423	12.5%
Production and supply of electricity, gas, steam, hot water and air for air conditioning systems	2,564,550	9.7%	2,645,822	10.8%
Production of food products	1,136,002	4.3%	1,071,761	4.4%
Manufacture of fabricated metal products, except machinery and equipment	1,089,935	4.1%	657,375	2.7%
Retail trade, except of motor vehicles	984,087	3.7%	825,311	3.4%
Mining of metal ores	928,439	3.5%	727,502	3.0%
Production and processing of coke and refined petroleum products	902,995	3.4%	884,023	3.6%
Manufacture of motor vehicles, trailers, semi-trailers, excluding motorcycles	825,197	3.1%	633,978	2.6%
Activities of head offices; consulting related to the management	737,993	2.8%	592,730	2.4%
„10" industries total	**17,081,620**	**64.8%**	**15,536,001**	**63.7%**

Industry according to PKD	30 Jun 2018		31 Dec 2017	
	PLN'000	%	PLN'000	%
Other industries	**9,265,135**	**35.2%**	**8,855,908**	**36.3%**
Total	**26,346,755**	**100.0%**	**24,391,909**	**100.0%**

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

The process of active portfolio quality management includes, depending on client type, assigning appropriate risk ratings and internal classification, monitoring days past due as well as application of the relevant remedial or debt collection actions. The Group has put in place a uniform internal system for classification of receivables based on predetermined criteria. Risk rating assignment and classification system are crucial in defining the level of impairment allowances.

The Bank does not distinguish between separate classes of financial instruments with low credit risk.

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

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

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

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

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

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

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

In order to assess if there has been an increase in credit risk, for Institutional Banking client, 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 among others),
- Expected exposure life period,
- occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, (assuming that those changes does not imply deterioration in future payment flows).

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

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

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

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

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

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

The rate of impairment is the submission of a number of models of customer creditworthiness assessment, connected to each other by process called integration logic. The ECL methodology, based on forecasts provided by the Chief Economist, transforms the results of integration logic so that the result reflects the expected changes in the economy. The parameters thus obtained are then applied to the loss vectors during the life of the product, estimated on the basis of historically observed loss rates.

- Recovery value vectors are the result of the analysis of the amount of historically collected receivables for homogeneous populations. The populations were segmented against similar features such as product type, time from write-down, type of restructuring carried out or historically observed repayments.
- The value of the EAD parameter is based on installment products on the expected repayment schedules generated based on the length of the contract and the interest rate on the product. For renewable products, EAD is based on the internally estimated CCF vector, which reflects changes in the exposure volume expected in subsequent periods.

The client's classification to stage 2 is based on both qualitative criteria, including 30 days of delinquency, or the fact of giving the client a soft restructuring as well as an estimated PD growth threshold above which the Bank decided that the reasons for a significant increase in credit risk were met. The threshold value was estimated using a econometric model specially created for this purpose.

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

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

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

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

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

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

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

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

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

The Group takes into account macroeconomic information about the future in determining the expected credit losses.

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

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

Scenarios and macroeconomic variables are updated on a quarterly basis.

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

The Group recognizes and manages counterparty credit risk in transactions in financial instruments based on internal limits for pre-settlement and settlement engagement. The exposures also include credit ratings.

The maximum Group's credit risk exposure is presented below.

PLN '000	Note	**30.06.2018**	**31.12.2017***
Gross receivables due from the Central Bank		33,015	29,031
Gross receivables due from banks	14	965,179	837,885
Gross receivables due from institutional customers**	17	14,389,916	13,344,151
Gross receivables due from individual customers**	17	7,308,554	7,092,665
Debt securities held-for-trading	15	2,282,192	1,143,908
Derivative instruments	15	1,240,798	1,018,132
Debt investment financial assets measured at fair value though other comprehensive income***	16	15,708,747	17,439,439
Other financial assets		291,474	263,119
Contingent liabilities granted	33	17,040,364	16,816,482
		59,260,239	**57,984,812**

** As at January 1, 2018, the Group applied IFRS 9 "Financial Instruments" for the first time and did not use the option of converting data relating to earlier periods.*

*** As at June 30, 2018, the value of collateral diminishing the maximum exposure to credit risk for receivables from institutional clients amounted to PLN 2 499 217 000. PLN (31 December 2017: PLN 2 279 820 thousand).*
**** As at June 30, 2018, the value of collateral to reduce the maximum exposure to credit risk for receivables from individual clients amounted to PLN 1 542 918 thousand. PLN (31 December 2017: PLN 1 481 839 thousand).*
**** Corresponds to the item 'Debt securities available for sale' according to IAS 39.*

The Group's portfolio is presented below, grouped into receivables from customers with identified impairment (stage 3) and receivables without impairment (stages 1 and 2). The details of impairment write-downs are also presented.

The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 30 June 2018:

PLN '000	30.06.2018		
	Receivables from institutional customers	**Receivables from individual customers**	**Receivables from banks**
Impaired receivables (Stage 3)			
Gross amount	**378,341**	**377,001**	**-**
Impairment write-downs	(244,957)	(284,401)	-
Net amount	**133,384**	**92,600**	-
Not impaired receivables (Stage 2)			
By risk rating			
Risk rating 1-4-	73,853	-	-
Risk rating +5-6-	684,469	-	2
Risk rating +7 and greater	326,717	-	-
By delinquency			
No delinquency	-	518,462	-
1-30 days	-	88,247	-
31-90 days	-	48,347	-
Gross amount	**1,085,039**	**655,056**	**2**
Impairment write-downs	(26,891)	(52,838)	-
Net amount	**1,058,148**	**602,218**	**2**
Not impaired receivables (Stage 1)			
By risk rating			
Risk rating 1-4-	10,378,948	-	453,490
Risk rating +5-6-	2,547,588	-	511,687
By delinquency			
No delinquency	-	6,069,570	-
1-30 days	-	201,012	-
31-90 days	-	5,915	-
Gross amount	**12,926,536**	**6,276,497**	**965,177**
Impairment write-downs	(31,309)	(28,194)	(3,975)
Net amount	**12,895,227**	**6,248,303**	**961,202**
Total gross value	**14,389,916**	**7,308,554**	**965,179**
Impairment write-downs	(303,157)	(365,433)	(3,975)
Total net value	**14,086,759**	**6,943,121**	**961,204**

** As at June 30, 2018, the Group did not identify POCI assets (assets acquired or granted with initial impairment).*

The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 31 December 2017:

PLN '000	31.12.2017*		
	Receivables from institutional customers	**Receivables from individual customers**	**Receivables from banks**
Impaired receivables			
Individual receivables			
Gross amount	**378,937**	**10,898**	**-**
Impairment write-off	257,059	6,633	-

PLN '000	31.12.2017*		
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks
Net amount	**121,878**	**4,265**	**-**
Portfolio receivables			
Gross amount	**23,350**	**309,417**	**-**
Impairment write-off	17,723	227,000	-
Net amount	**5,627**	**82,417**	**-**
Not impaired receivables			
by risk rating			
Risk rating 1-4-	9,715,661	-	806,362
Risk rating +5-6-	3,070,022	-	31,523
Risk rating +7 and greater	156,181	-	-
by delinquency			
no delinquency	-	6,437,196	-
1–30 days	-	283,109	-
31–90 days	-	52,045	-
Gross amount	**12,941,864**	**6,772,350**	**837,885**
Impairment	17,462	61,906	1,111
Net amount	**12,924,402**	**6,710,444**	**836,774**
Total net amount	**13,051,907**	**6,797,126**	**836,774**

** As at January 1, 2018, the Group applied IFRS 9 "Financial Instruments" for the first time and did not use the option of converting data relating to earlier periods.*

Structure of derivatives in terms of credit risk

PLN '000	30.06.2018			31.12.2017		
	Transactions with institutional customers	Transactions with individual customers	Transactions with banks	Transactions with institutional customers	Transactions with individual customers	Transactions with banks
Derivatives by risk rating						
Risk rating 1-4-	276,997	1	942,694	234,724	4,632	753,408
Risk rating+5-6-	11,817	-	9,183	25,090	-	2
Risk rating +7 and greater	106	-	-	276	-	-
Total	**288,920**	**1**	**951,877**	**260,090**	**4,632**	**753,410**

The breakdown of the exposures in the portfolio of debt securities held for trading in the portfolio of debt securities measured at fair value through other comprehensive income according to Fitch agency ratings is presented below.

PLN '000	30.06.2018		31.12.2017	
	Debt securities held-for-trading*	Debt securities measured at fair value though the income statement*	Debt securities held-for-trading	Debt securities available-for-sale
Issuer rating by Fitch agency				
A (including: from A- to AAA)	2,282,192	15,708,747	1,143,908	17,439,439
Total	**2,282,192**	**15,708,747**	**1,143,908**	**17,439,439**

Structure of the granted contingent liabilities from the credit risk point of view as at June 30, 2018:

PLN '000	30.06.2018		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Contingent liabilities granted (Stage3)	**4,969**	**1,427**	**-**
by risk rating			
Risk rating +7and greater	4,969	**-**	-

Contingent liabilities granted (Stage 2)	**319,989**	**1,003,848**	**-**
by risk rating			
Risk rating 1-4-	23,180	-	-
Risk rating+5-6-	266,299	-	-
Risk rating +7and greater	30,510	-	-
Contingent liabilities granted (Stage 2)	**10,443,496**	**4,790,765**	**475,870**
by risk rating			
Risk rating 1-4-	8,238,350	-	469,544
Risk rating+5-6-	2,205,146	-	6,326
Total	**10,768,454**	**5,796,040**	**475,870**

Structure of the granted contingent liabilities from the credit risk point of view as at December 31, 2017::

PLN '000	**31.12.2017***	
	Liabilities due to institutional customers	**Liabilities due to banks**
Granted contingent liabilities by risk rating		
Risk rating 1-4-	7,188,531	383,555
Risk rating+5-6-	2,696,078	6,326
Risk rating +7and greater	58,102	-
Total	**9,942,711**	**389,881**

* As at January 1, 2018, the Group applied IFRS 9 "Financial Instruments" for the first time and did not use the option of converting data relating to earlier periods.

In addition to general principles of credit risk mitigation, the Group has defined specific rules for institutional and retail for acceptance, assessment, establishment and monitoring of various types of collaterals, including warranties, guarantees and similar instruments of support (hereinafter called jointly: collaterals). These principles are used for reducing residual risk associated with taking collaterals.

Forborne exposures are identified in the Group within the credit risk management. The Group takes into account "forborne" exposures according to the reporting requirements under the EBA/ITS/2013/03 Technical Standards and document 2012/852 issued by the ESMA.

The Group considers exposures as "forborne" that are in the process of troubled debt restructuring. This is a situation when the debtor is experiencing financial difficulties and BHW grants preferential financing conditions to the debtor that it would not otherwise consider (i.e., off-market terms). Preferential financing conditions are considered situations in which for example the yield of the modified facility is lower than the contractual yield prior to the restructuring and/or the yield on the modified loan is below a market yield for the relevant tenor and credit risk.

The extent to which financing conditions are changed is set individually for each debtor affected by the situation. In particular, such activities include:

- taking over assets,
- providing new, restructured commitment to partially or fully repay the existing exposure,
- modification of the conditions of the existing commitment, including changes to the repayment schedule (e.g. extension of the loan period), change in the interest rate on the receivable or repayment method, or reduction of the repayment amount (principal amount or accrued interest).

The process of assigning "forborne" status for exposures is closely related to the credit risk management process, including the impairment recognition process for exposures.

In the case of institutional clients, the Group assigns "forborne" status for exposures with identified impairment, which triggers the need to write off part of the receivable.

In the case of individual clients, the "forborne" status may refer to both the exposures from the impaired portfolio and the portfolio without impairment. The Group treats exposures as “forborne” without impairment when restructuring activities were carried out, while the change in financing conditions did not imply a deterioration of future payment streams. In such cases, the change in the status of the "forborne" exposure is not evidence of impairment.

Exposures with modified conditions subject to forbearance rules (forborne exposures) are subject to regulatory and internal reporting.

The Group assumes that the exposures remain in the "forborne" status until they are fully repaid.

The value of exposure in the "forborne" status is not significant, therefore the Group monitors these amounts collectively, without taking into account the various divisions of the portfolio.

Exposure values in the "forborne" status as at June 30, 2018:

PLN '000	As of 30.06.2018
Receivables without recognized impairment,	20,943,128
Receivables without recognized impairment (Stage1), including	19,203,033
non-financial sector entities	17,063,747
Institutional customers	10,787,250
Individual customers	6,276,497
Receivables without recognized impairment (Stage2), including	1,740,095
non-financial sector entities	1,740,081
Institutional customers	1,085,025
Individual customers	655,056
Receivables with recognized impairment(Stage 3), including:	755,342
non-financial sector entities	755,342
Institutional customers, including:	378,341
„forborne"	80,698
Individual customers, including:	377,001
„forborne"	21,086
Total gross amount, including:	**21,698,470**
non-financial sector entities	19,559,170
Institutional customers, including:	12,250,616
„forborne"	80,698
Individual customers, including:	7,308,554
„forborne"	21,086
Impairment write-off	**(668,590)**
On „forborne" receivables	(61,189)
Total net amounts due from customers, including:	**21,029,880**
„forborne" receivables	40,595

Exposure values in "forborne" status as at 31 December 2017:

PLN '000	As of 31.12.2017*
Receivables without recognized impairment, including	19,714,214
non-financial sector entities	17,718,859
Institutional customers	10,946,509
Individual customers	6,772,350
Receivables with recognized impairment, including:	722,602
non-financial sector entities	705,466
Institutional customers, including:	385,151
„forborne"	77,706
Individual customers, including:	320,315
„forborne"	19,556
Total gross amount, including:	**20,436,816**
non-financial sector entities	18,424,326
Institutional customers, including:	11,331,661
„forborne"	77,706
Individual customers, including:	7,092,665
„forborne"	19,556
Impairment write-off	**(587,783)**
On „forborne" receivables	(58,855)

PLN '000	As of 31.12.2017*
Total net amounts due from customers, including:	**19,849,033**
„forborne" receivables	38,407

* As at January 1, 2018, the Group applied IFRS 9 "Financial Instruments" for the first time and did not use the option of converting data relating to earlier periods.

Liquidity Risk

Liquidity risk is defined as the risk of Group's lack of ability to meet its financial commitments to customers or counterparties when due.

The objective of liquidity risk management is to ensure that the Group can meet all commitments to customers when due and to secure liquidity necessary to clear all money market transactions when due.

In the first half of 2018 the Group has not implemented any changes in liquidity risk management processes, procedures, systems and policies.

The supervisory liquidity measures M1-M4 i LCR were as follows:

	30.06.2018	31.12.2017	Change
M1 - Short-term liquidity gap (PLN)	6,548,949	8,380,500	(1,831,551)
M2 - Short-term liquidity ratio	1.20	1.37	(0.17)
M3 - Coverage of illiquid assets with regulatory capital	5.38	9.78	(4.40)
M4 - Coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	1.39	1.54	(0.15)
LCR	125%	145%	(20) pp

The level of modified cash flow gap and the level of liquid assets as at 30 June 2018 and 31 December 2017 are shown below.

The cumulated liquidity gap as at 30 June 2018 in real terms:

PLN '000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	17,233,519	356,784	474,702	282,765	25,753,440
Liabilities	9,125,709	4,519,872	73,239	-	30,382,390
Balance-sheet gap in the period	**8,107,810**	**(4,163,088)**	**401,463**	**282,765**	**(4,628,950)**
Conditional derivative transactions – inflows	21,259,934	5,782,324	8,329,785	6,950,093	17,920,670
Conditional derivative transactions – outflows	21,273,920	5,825,981	8,500,538	7,017,403	17,979,375
Off-balance-sheet gap in the period	**(13,986)**	**(43,657)**	**(170,753)**	**(67,310)**	**(58,705)**
Potential utilization of credit lines granted	675,125	411,575	522,272	-	(1,608,972)
Cumulative gap	**7,418,699**	**2,800,379**	**2,508,817**	**2,724,272**	**(354,411)**

The cumulated liquidity gap as at 31 December 2017 in real terms:

PLN '000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	16,614,355	339,546	430,224	267,540	25,385,931
Liabilities	7,108,604	4,079,663	41,611	1,630	31,806,088
Balance sheet gap in the period	**9,505,751**	**(3,740,117)**	**388,613**	**265,910**	**(6,420,157)**
Conditional derivative transactions – inflows	12,417,617	4,304,596	6,233,162	4,916,266	15,796,336
Conditional derivative transactions – outflows	12,595,697	4,368,368	6,280,209	5,114,049	15,629,002
Off-balance-sheet gap in the period	**(178,080)**	**(63,772)**	**(47,047)**	**(197,783)**	**167,334**
Potential utilization of credit lines granted	693,017	657,996	191,768	-	(1,542,781)
Cumulative gap	**8,634,654**	**4,172,769**	**4,322,567**	**4,390,694**	**(319,348)**

Liquid assets and cumulated liquidity gap up to 1 year:

PLN '000	30.06.2018	31.12.2017	Change
Liquid assets, including:	18,329,874	18,805,370	(475,496)
nostro account in NBP and stable part of cash	338,935	222,023	116,912
debt securities held-for-trading	2,282,192	1,143,908	1,138,284
debt financial assets measured at fair value through other comprehensive income*	15,708,747	17,439,439	(1,730,692)
Cumulative liquidity gap up to 1 year	2,508,817	4,322,567	(1,813,750)
Coverage of the gap with liquid assets	Positive gap	Positive gap	

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

Market risk

Market risk is the risk of negative impact on the Group's earnings and equity resulting from changes in market interest rates, foreign exchange rates, equity and commodity prices, as well all volatilities of these rates and prices.

The objective of market risk management is to ensure that the extent of risk accepted within the Bank corresponds to the level acceptable to the shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Group.

In the first half of 2018 the Group has not made any changes in market risk management processes, procedures, systems and policies.

In market risk management there are two types of portfolios: trading and bank portfolios.

The following risk measures are applied to bank portfolios:

- Interest rate gap analysis;
- Value-at-Close and Total Return methods;
- Interest Rate Exposure (IRE); and
- Stress testing.

Interest rate gap analysis uses the schedule of maturities or revaluations of balance-sheet positions, and of derivative instruments used in hedge accounting or qualified as economic hedge for the purpose of establishing the differences between positions whose maturity or interest rate revaluation fall within a given time frame.

The general rule in the interest rate gap analysis is that of classifying transactions to respective bank portfolio position revaluation bands by the contracted or assumed transaction interest rate revaluation dates.
It is assumed that:

- transactions with a fixed interest rate (such as term deposits, interbank deposits, portfolio of debt securities available for-sale with a fixed interest rate, granted loans both repaid in full at maturity and repaid in installments) are classified into appropriate revaluation bands in accordance with their maturity dates;
- transactions with a floating interest rate, updated on the regular basis (primarily, loans granted with interest set based on a specific rate such as, e.g., WIBOR 1M) are classified into appropriate revaluation bands in accordance with the nearest interest rate revaluation date;
- transactions with an administrated floating interest rate (i.e., any changes in the interest rate and its revaluation date are reserved to sole decision of the Bank) or undefined maturity or interest rate revaluation date are classified into appropriate revaluation bands in accordance with historically observed or expert assessed shifts in the moment and scale of change in the interest rate of given positions in relation to change in the market interest rates (model of minimizing product margin variability). This group of transactions / balance-sheet positions includes among others: current accounts, card loans, overdraft facilities. Additionally, early loan repayments are taken into account based on analysis of actual repayments made by customers before the due date and product interest rate revaluation profiles are set on that basis. This pertains particularly to installment loans;
- transactions insensitive to changes of interest rates, including cash, fixed assets, equity, other assets/liabilities, are classified into the longest revaluation band;
- transactions executed directly by the FInancial Markets Sub Sector for the purpose of management of interest rate risk and liquidity risk (Financial Markets Sub-Sector's own portfolio) are always classified into appropriate revaluation bands in accordance with the contracted dates.

The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation of the trading portfolio. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and gains/losses on sale of assets or cancelling of obligations.

The Interest Rate Exposure (IRE) method is used for estimation of potential impact of a specific parallel shift in the interest rate curves on interest income from the bank portfolio before tax which can be earned in a specific period of time. This is a prospective indicator, equivalent to Factor Sensitivity of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time horizon of 10 years; however, for the purpose of current monitoring and limiting of interest rate risk positions in bank portfolios, the Bank normally applies IRE measures with one-year and five-year time horizons.

Group's IRE measures as at 30 June 2018 and 31 December 2017 are presented below. The list is shown in the main currencies, i.e. PLN, USD and EUR which jointly account to over 90% of Group's balance sheet.

PLN '000	30.06.2018		31.12.2017	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	21,421	91,226	29,217	163,736
USD	19,168	34,754	18,002	32,083
EUR	(3,120)	(6,353)	(409)	(6,467)

Stress tests measure the potential impact of material changes in the level or directionality of interest rate curves on open interest positions in the bank portfolio.

The Group runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and adjusted as appropriate to changes in the market conditions of the Group's operation.

Activities relating to securities available-for-sale are the responsibility of the Assets and Liabilities Management Department within the Financial Markets Sub-Sector. Three basic goals of activities in the portfolio of securities available-for-sale have been defined as follows:

- management of the liquidity;
- hedging against the risk transferred to the Financial Markets Sub-Sectorfrom other organizational units of the Bank or the Group's entities;
- opening of own interest rate risk positions on the Group's books by the Financial Markets Sub-Sector.

In order to avoid excessive fluctuations in the Bank's capital funds, caused by the revaluation of assets held-for-sale, the maximum limits of DV01 (Dollar Value of 1 basis point), that specify potential change of risk position's value for specific curve of interest rate in its specific node (into which are brought all of cash flows in set time interval), caused by movement of market's interest rate up by one basic point for this kind of portfolio. The limits also concern the open positions in derivatives (i.e. interest rate swap transactions), carried out to hedge the fair value of the portfolio.

The table below presents the risk measured with DV01 for the portfolio of securities available-for-sale, including the economic collateral contained in the hedge program (Fair Value Hedge Accounting Program), broken down by currency:

PLN '000	30.06.2018			Total in the period 01.01.2018 – 30.06.2018		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(2,798)	(2,798)	-	(2,219)	(1,461)	(3,032)
USD	(16)	(16)	-	(16)	(15)	(18)
EUR	(429)	(429)	-	(415)	(389)	(450)

PLN '000	30.06.2017			Total in the period 01.01.2017 – 30.06.2017		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(1,086)	(2,394)	1,308	(771)	(487)	(1,474)
USD	(244)	(244)	-	(153)	(44)	(255)
EUR	(535)	(535)	-	(545)	(423)	(593)

Both base risk and option risk of bank's portfolio were considered as immaterial.

The following methods are applicable in measurement of the risk of the trading portfolios:

- Factor Sensitivity;
- Value at Risk (VaR); and
- Stress testing.

Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a specific change in a market risk factor (e.g., change of the interest rate by 1 basis point at a given point on the interest rate curve, change of the currency exchange rate or share price by 1%).

In the case of interest rates, the applicable sensitivity measure is DV01 (Dollar Value of 1 basis point), which determines the potential change in the value of risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given time horizon), caused by a shift in the market interest rate by 1 basis point upwards, is established for this kind of portfolio

In the case of exchange rate (FX) risk, the Factor Sensitivity value is equal to the value of the FX position in a given currency.

In the case of positions held in equities, the Factor Sensitivity value is equal to the net value of the positions held in the respective instruments (shares, indices, participation units).

Value at Risk (VaR) is the integrated measure of the market risk of trading portfolios which combines the impact of positions in respective risk factors and accounts for the effect of correlation between the fluctuations of different factors. VaR is applied for the purpose of measuring the potential decrease in the value of a position or portfolio under normal market conditions, at a specific confidence level and within a specific time period. In the case of positions opened in the Group's trading portfolio, VaR is calculated at a 99% confidence level and a one-day holding period.

DV01 as well as VaR for the trading portfolio are calculated net of the economic hedge of the portfolio of securities available-for-sale, i.e., net of derivative instruments intended to hedge the fair value of the portfolio. The exposures to the risk of such transactions are mitigated through the application of relevant risk measurement methods and by the bank portfolio risk limits.

Each day, the Group runs stress tests on the assumption that the risk factors change by more than expected in the Value at Risk scenario, ignoring historical correlations of these factors.

The Group keeps records of exposures of the bank portfolios to market risk in over twenty currencies both for currency positions and exposures to interest rates risk. These exposures are significant only for a few currencies. For a large group of currencies, the exposures are the consequence of a gap between transactions executed on the customer's orders and closing transactions with other wholesale market counterparties. Significant exposures to market risk are opened for PLN, currencies of well-developed markets (predominantly USD and EUR with a lesser focus on GBP, CHF and JPY) and Central European currencies.

The values of significant exposures of the bank portfolios to the interest rates risk in terms of DV01 in the first half of 2017 are listed in the table below:

PLN '000	30.06.2018	31.12.2017	in the period 01.01.2018 - 30.06.2018			in the period 01.01.2017 - 30.06.2017		
			Average	Maximum	Minimum	Average	Maximum	Minimum
PLN	(289)	313	131	720	(710)	348	777	(242)
EUR	134	73	42	168	(61)	(18)	80	(127)
USD	35	9	38	98	(21)	(8)	34	(139)

The currency structure of the positions in the first half of 2018 has not changed in comparison with the year 2017, as positions in domestic currency USD and EUR were still the majority. The average exposure to interest rates risk PLN remained on a lower level to 2017, whereas EUR and USD positions were on average higher . The average risk tendency for instruments denominated in PLN amounted to PLN 289 thousand and in EUR it was PLN 134 thousand. The highest exposures were taken in PLN and EUR and were respectively PLN 720 thousand and PLN 168 thousand.

The table below shows the level of risk measured using VaR (excluding exposures resulting from available-for-sale portfolio's economic securities), divided into currency risk and interest rate risk positions in the first half of 2018:

PLN '000	30.06.2018	31.12.2017	In the period 1.01.2018 – 30.06.2018			In the period 1.01.2017 – 30.06.2017		
			Average	Maximum	Minimum	Avarage	Maximum	Minimum
FX risk	1,076	289	665	2,136	127	1,028	4,940	100
Interest rate risk	4,307	3,499	4,239	8,642	1,682	5,031	8,746	1,442
Spread risk	3,757	6,202	5,349	7,509	3,470	4,804	6,278	2,313
Overall risk	5,890	7,347	7,705	11,206	4,371	10,432	15,198	3,365

The overall average price risk of trade portfolios in the first half of 2018 decreaseded by 26% comparing to the average price risk in the I half 2017 and reached the level of PLN 7,7 million, mainly because of the interest rate risk exposure. Considering maximum risk levels, in case of interest rate risk and price risk of the whole trading portfolio they decreased in comparison with the previous year. Maximum price risk amounted to PLN 11,2 million while in the I half 2017 it settled at PLN 15,2 million.

Capital instruments risk

Dom Maklerski Banku Handlowego S.A. (DMBH) is the Group's key entity transacting capital instruments. In order to run its core business, DMBH has been authorized to run the price risk of trade portfolio of shares, share rights, traded or likely to be traded on Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange or WSE), BondSpot, WIG20 futures and the Indexed Participation Units, as well as shares on the international stock exchanges of companies listed on the WSE. DMBH portfolio's price risk has volume limits for each kind of financial instruments and concentration-warning thresholds for each issuer. For DMBH the potential loss warning thresholds are also applied to stress testing and cumulated loss on the trade portfolio.

Currency exposure

Currency exposure of Group's assets and liabilities is presented in main currencies in the following table:

30 June 2018

PLN '000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	4,249,816	4,432,311	16,745,927	16,606,430	(42,998)
USD	1,513,596	3,587,938	19,571,279	17,501,948	(5,011)
GBP	29,057	371,012	969,117	627,525	(363)
CHF	581,848	209,303	2,371,257	2,742,396	1,406
Other currencies	30,425	164,033	1,474,833	1,325,052	16,174
	6,404,742	**8,764,597**	**41,132,413**	**38,803,351**	**(30,792)**

31 December 2017

PLN '000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,740,247	4,466,023	15,467,548	14,648,480	93,292
USD	1,103,591	3,751,787	11,883,166	9,222,515	12,455
GBP	14,454	396,063	412,574	31,195	(230)
CHF	339,293	223,461	1,685,061	1,791,647	9,246
Other currencies	38,561	211,370	1,872,809	1,680,813	19,187
	5,236,146	**9,048,704**	**31,321,158**	**27,374,650**	**133,950**

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, technical systems or from external events.

Operational risk includes technological and technical risk, also outsourcing, malpractice/embezzlement, money laundering, data security, external events (continuity principle), taxation and accounting risk. Moreover, operational risk embraces product, legal, model, staff, concentration, inadequate proceeding and reputation risk, related to operational risk incidents, business and market practice and involved in other types of risk (e.g. credit, counterparty, liquidity, inconsistency).

Operational risk does not cover strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

In the first half of 2018 the Group has not made any changes in control environment.

Capital adequacy

In the first half of 2018, as well as in the first half of 2017 the Group fulfilled the capital adequacy requirements. Capital adequacy ratio is calculated according to respective regulations.

6. Interest income

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
Interest income from:				
financial assets measured at amortized cost				
Balances with the Central Bank	1,578	3,307	4,151	8,211
Amounts due from banks	7,274	12,159	5,989	11,955
Amounts due from customers, in respect of:	234,424	468,486	228,032	447,345
financial sector	14,265	27,252	12,445	24,356
non-financial sector, including:	220,159	441,234	215,587	422,989
credit cards	70,691	141,615	69,656	139,840
Financial assets measured at fair value through comprehensive income				
Debt investment financial assets measured at fair value through comprehensive income**	62,477	134,358	77,130	150,497
Similar income from:				
financial assets measured at fair value through financial result				
Debt securities held-for-trading	8,803	22,373	3,686	11,823
Liabilities with negative interest rate	2,426	4,281	1,720	3,207
Derivatives in hedge accounting	-	-	9,181	9,181
	316,982	**644,964**	**329,889**	**642,219**
Interest expense and similar charges for				
financial liabilities measured at amortized cost				
Amounts due to banks	(8,426)	(21,930)	(8,064)	(15,188)
Amounts due to financial sector entities	(16,053)	(29,910)	(13,219)	(26,183)
Amounts due to non-financial sector entities	(21,456)	(40,985)	(27,877)	(58,759)
Loans and advances acquired	(60)	(133)	(129)	(306)
Financial liabilities measured at fair value though financial result				
Assets with negative interest rate	(392)	(536)	(373)	(650)
Derivatives in hedge accounting	-	(3,709)	(16,154)	(22,784)
	(46,387)	**(97,203)**	**(65,816)**	**(123,870)**
Net interest income	**270,595**	**547,761**	**264,073**	**518,349**

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

7. Net fee and commission income

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
Fee and commission income				
Insurance and investment products distrubution	19,593	42,515	25,410	50,287
Payment and credit cards	39,571	77,382	39,109	76,799
Payment services	26,552	52,845	26,715	52,100
Custody services*	23,022	43,284	24,052	46,377
Brokerage activity	9,458	23,823	18,791	32,204
Clients' cash on account management services	6,196	13,440	5,801	12,727
Guarantees granted	4,739	9,530	4,733	9,184
Financial liabilities granted	2,002	3,829	1,780	3,234
Other	28,551	56,551	30,349	49,170
Installment products in credit card	6,742	13,292	6,673	13,113

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
	159,684	**323,199**	**176,740**	**332,082**
Fee and commission expense				
Payment and credit cards	(8,047)	(16,758)	(7,069)	(14,247)
Brokerage activity	(2,990)	(6,355)	(4,430)	(8,439)
Fees paid to the National Depository for Securities (KDPW)	(4,544)	(9,199)	(5,022)	(10,056)
Brokerage fees	(1,223)	(2,625)	(1,050)	(2,136)
Other	(4,065)	(7,850)	(3,796)	(7,538)
	(20,869)	**(42,787)**	**(21,367)**	**(42,416)**
Net fee and commission expense	**138,815**	**280,412**	**155,373**	**289,666**

**Starting from 1st quarter 2018 the remuneration of the Group from distribution of structured bonds for customers of Retail Sector, presented earlier in Custody services was moved to Insurance and investment products distribution. Comparative data was respectively restated.*

The net commission result for the first half of 2018 comprises commission (other than income covered by the calculation of the effective interest rate), which is related to financial assets and liabilities not valued at fair value through profit or loss in the amount of PLN 96,054 thousand (for the first half of 2017: PLN 88,207 thousand) and commission expenses in the amount of PLN 18,819 thousand (for the first half of 2017: PLN 16,060 thousand).

8. Net income on financial instruments and revaluation

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 income on financial instruments valued at fair value through profit or loss				
Debt instruments	8,914	36,941	1,850	816
Equity instruments	(2,191)	(5,034)	(897)	893
Derivative instruments, including:	14,949	40,785	(4,447)	(1,929)
Interest rate derivatives	12,022	34,119	(6,073)	(1,789)
	21,672	**72,692**	**(3,494)**	**(220)**
Net income on FX operations				
Operations on FX derivative instruments	243,756	250,838	(92,213)	(117,692)
FX gains and losses (revaluation)	(170,241)	(130,787)	176,003	270,843
	73,515	**120,051**	**83,790**	**153,151**
Net income on financial instruments and revaluation	**95,187**	**192,743**	**80,296**	**152,931**

Net income on financial instruments and revaluation for the first half of 2018 includes movement in adjustment of the valuation of derivatives from adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN (5,159) thousand (for the first half of 2017: PLN (722) thousand). Presented as 'Net income on financial instruments valued at fair value through profit or loss'.

Net income on debt instruments includes the net result on trading in: government securities, corporate debt securities and monetary market instruments held-for-trading.

Net income on derivative instruments comprises net income on transactions regarding interest rate swaps, options, futures and other derivatives.

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

9. Net other operating income and expense

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
Other operating income				
Income from provision of services for related parties outside the Group	1,338	3,376	1,034	3,764
Income from office rental	1,851	3,957	2,253	4,534
Reversal of net provisions for litigation	42	106	-	-
Income from revaluation of fixed assets provisions	-	-	4,059	4,059
Other, including:	2,940	15,331	2,041	4,565
reimbursement of legal and enforcement costs	715	1,418	689	1,453
	6,171	**22,770**	**9,387**	**16,922**
Other operating expenses				
Amicable procedure and vindication expenses	(1,927)	(4,450)	(2,761)	(5,247)
Fixed assets held-for-sale maintenance cost	(14)	(26)	(21)	(49)
Net provision for litigation	-		294	(4,951)
Other, including:	(5,571)	(9,395)	(4,101)	(7,848)
donation	(985)	(2,075)	(884)	(1,788)
	(7,512)	**(13,871)**	**(6,589)**	**(18,095)**
Net other operating income	**(1,341)**	**8,899**	**2,798**	**(1,173)**

10. General administrative expenses

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
Staff expenses				
Remuneration costs, including:	(95,805)	(197,862)	(101,605)	(199,519)
Costs of retirement benefits	(6,827)	(13,642)	(12,849)	(20,140)
Bonuses and rewards including:	(16,221)	(40,848)	(22,968)	(38,855)
Payments related to own equity instruments	(712)	(3,391)	(197)	(1,344)
Social security costs	(15,609)	(36,974)	(17,196)	(35,997)
	(127,635)	**(275,684)**	**(141,769)**	**(274,371)**
Administrative expenses				
Telecommunication fees and hardware purchase costs	(46,427)	(89,879)	(46,374)	(95,910)
Costs of external services, including advisory, audit, consulting services	(13,574)	(28,267)	(12,122)	(26,946)
Building maintenance and rent costs	(15,761)	(32,074)	(15,812)	(32,918)
Marketing costs	(12,435)	(27,430)	(15,485)	(23,827)
Costs of cash management services, costs of cleaning services and other transaction costs	(9,823)	(18,812)	(8,629)	(17,816)
Costs of external services related to distribution of banking products	(10,436)	(18,986)	(6,912)	(13,646)
Postal services, office supplies and printmaking costs	(2,269)	(3,947)	(2,484)	(4,827)
Training and education costs	(377)	(728)	(474)	(941)
Banking supervision costs	(50)	(3,121)	(79)	(3,056)
Costs paid to Bank Guarantee Fund	(3,465)	(54,705)	(2,622)	(66,016)
Other expenses	(19,329)	(35,337)	(18,356)	(37,168)
	(133,946)	**(313,286)**	**(129,349)**	**(323,071)**
General administrative expenses, total	**(261,581)**	**(588,970)**	**(271,118)**	**(597,442)**

Staff expenses include costs of the following benefits paid and payable to current and former members of the Bank's Management Board:

PLN '000	01.01 – 30.06.2018	01.01 – 30.06.2017
Short-term employee benefits (services)	6,442	6,084
Long-term employee benefits (services)	1,619	796
Rewards related to own equity instruments	1,591	1,789
	9,652	**8,669**

Change due to restructuring provision

Table below presents a change of restructuring provisions set on costs of restructuring of workforce and the consumer bank branch network, which started in 2013.

PLN '000	01.01. – 30.06.2018		01.01. – 30.06.2017	
	Employment restructuring provisions	Branch network restucturing provisions	Employment restructuring provisions	Branch network restucturing provisions
Balance on January 1	**429**	**1,928**	**4,171**	**7,647**
Decreases:				
Provisions utilised	-	(461)	(2,399)	(4,687)
Provisions release	(429)	-	(121)	(66)
Balance at the end of period	**-**	**1,467**	**1,651**	**2,894**

PLN '000	01.01. – 31.12.2017	
	Employment restructuring provisions	Branch network restucturing provisions
Balance on January 1	**4,171**	**7,647**
Decreases:		
Provisions utilised	(3,383)	(5,377)
Reversal of provisions	(359)	(342)
Balance at the end of period	**429**	**1,928**

11. Net impairment loss on financial assets and provisions for granted financial liabilities and guarantees

	II quarter	I half of the year	II quarter*	I half of the year*
PLN '000	01.04. - 30.06. 2018	01.01. - 30.06. 2018	01.04. - 30.06. 2017	01.01. - 30.06. 2017
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)**	**(13,311)**	**(43,157)**
Write-offs creation	(60,340)	(109,729)	(41,746)	(93,447)
Net write-offs creation on receivables on taken instruments transactions	(12)	(51)	-	(1)
Write-offs reversals	30,216	75,865	27,079	47,262
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**

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
	(30,508)	**(34,253)**	**(13,325)**	**(43,112)**
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	**(30,106)**	**(35,045)**	**(13,308)**	**(43,019)**
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	**(26,992)**	**(32,524)**	**(13,292)**	**(42,706)**

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

12. Income tax expense

Recognized in the income statement

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
Current tax				
Current year CIT	(69,091)	(107,714)	(68,141)	(96,879)
Adjustments for prior years	-	(1,120)	-	(797)
	(69,091)	(108,834)	**(68,141)**	**(97,676)**
Deferred tax				
Net changes on temporary differences	21,049	9,983	25,173	22,245
	21,049	**9,983**	**25,173**	**22,245**
Income tax expense	(48,042)	(98,851)	**(42,968)**	**(75,431)**

Reconciliation of effective tax rate

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
Profit before tax	230,412	427,063	200,951	276,070
Income tax at the tax rate of 19%	(43,778)	(81,142)	(38,181)	(52,453)
Allowances for impairment losses not deductible for income	(269)	751	(354)	(1,761)
Taxable income not recognized in the income statement	(162)	(1,137)	(312)	(399)
Deductible expenses not recognized in the income statement	-	-	(4,711)	(4,692)
Non-taxable income	1,689	1,747	6,269	6,299
Other permanent differences, including other expenses not deductible for income	(5,522)	(19,070)	(5,679)	(22,425)
Income tax expense	**(48,042)**	**(98,851)**	**(42,968)**	**(75,431)**
Effective tax rate	**20.85%**	**23.15%**	**21.38%**	**27.32%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 30 June 2018 is related to financial assets measured at fair value through other comprehensive income and specific services program valuation and equals PLN (5,639) thousand (30 June 2017: PLN 31,757 thousand).

13. Statement of changes in other comprehensive income

Deferred income tax and reclassifications recognized in other comprehensive income relate to the valuation of financial assets measured at fair value related to revaluation reserve and the valuation of specific services program recognized in the other reserves.

PLN '000	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2018	**(17,513)**	**3,327**	**(14,186)**
Change in valuation of financial assets measured at fair value through other comprehensive income	124,860	(23,806)	101,054
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(78,107)	14,840	(63,267)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**46,753**	**(8,966)**	**37,787**
Balance as at 30 June 2018	**29,240**	**(5,639)**	**23,601**

PLN '000	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2017	**(271,083)**	**51,506**	**(219,577)**
Change in valuation of financial assets available-for-sale	117,476	(22,321)	95,155
Valuation of financial assets available-for-sale sold, recognized to income statement	(15,861)	3,014	(12,847)
Total comprehensive income connected with financial assets available-for-sale	**101,615**	**(19,307)**	**82,308**
Net actuarial profits on specific services program valuation	2,325	(442)	1,883
Balance as at 30 June 2017	**(167,143)**	**31,757**	**(135,386)**

14. Amounts due from banks

PLN '000	30.06.2018	31.12.2017*
Current accounts	50,375	54,291
Deposits	5	499
Credits and loans	31	1,092
Receivables due to purchased securities with repurchase agreement	538,495	276,477
Deposits pledged as collateral for derivative transactions and stock exchange transactions	376,273	505,526
Total gross value	**965,179**	**837,885**
Impairment write- downs	(3,975)	(1,111)
Total net value	**961,204**	**836,774**

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

Movement in amounts due from banks presents as follows:

PLN '000 **Loss allowance - amounts due from banks**	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 31 December 2017	**-**	**-**	**-**	**(1,111)**
Impact of adopting IFRS 9	-	-	-	(1,236)
Loss allowance as at 1 January 2018	**(2,223)**	**(124)**	**-**	**(2,347)**
Transfer among stages	(180)	180	-	-
Creation/Realeses in the period though the income statement	(1,356)	(56)	-	(1,412)
Foreign exchange and other movements	(216)	-	-	(216)
Loss allowance as at 30 June 2018	**(3,975)**	**-**	**-**	**(3,975)**

PLN '000	31.12.2017*
As at 1 January	**(177)**
Increases (due to):	
Write-offs creation	(1,471)
Decreases (due to):	
Write-offs release	512
Other	25
As at 31 December	**(1,111)**

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

15. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN '000	30.06.2018	31.12.2017
Debt securities held-for-trading		
Bonds and notes issued by:		
Central Banks	199,992	-
Other banks*	1	1
Other financial units	107,227	48,412
Government	1,974,972	1,095,495
	2,282,192	**1,143,908**
Including:		
Listed on the active market	2,082,199	1,143,908
Equity instruments held-for-trading	**9,598**	**17,885**
Including:		
Listed on the active market	9,598	17,885
Derivatives	**1,240,798**	**1,018,132**
Financial assets held-for-trading, total	**3,532,588**	**2,179,925**

**As at 30 June 2018 securities (bonds) issued by banks in amount PLN 1 thousand is covered by guarantee of State Treasury (31 December 2017: PLN 1 thousand).*

Financial liabilities held-for-trading

PLN '000	30.06.2018	31.12.2017
Liabilities related to short-sale of securities	78,891	2,184
Derivatives	1,539,677	1,351,031
Financial liabilities held-for-trading, total	**1,618,568**	**1,353,215**

As at 30 June 2018 and 31 December 2017 the Group did not hold any financial assets and liabilities designed at fair value through profit or loss initial recognition.

Derivative financial instruments as at 30 June 2018

PLN '000	Notional value of derivatives with remaining life of				Total	Fair value	
	less than three months	between three months and one year	between one year and five years	more than five years		Assets	Liabilities
Interest rate instruments	22,800,542	24,782,325	99,897,100	28,759,162	176,239,129	953,328	1,265,994
Currency instruments	27,657,306	6,740,987	4,207,959	111,230	38,717,482	280,900	266,482
Securities transactions	1,546,703	2,278	-	-	1,548,981	376	1,001
Commodity transactions	91,074	51,160	30,349	-	172,583	6,194	6,200
Derivative instruments total	**52,095,625**	**31,576,750**	**104,135,408**	**28,870,392**	**216,678,175**	**1,240,798**	**1,539,677**

Derivative financial instruments as at 31 December 2017

PLN '000	Notional value of derivatives with remaining life of				Total	Fair value	
	less than three months	between three months and one year	between one year and five years	more than five years		Assets	Liabilities
Interest rate instruments	24,295,666	17,869,973	85,623,135	24,725,360	152,514,134	789,232	927,088
Currency instruments	17,515,391	5,186,042	3,886,044	126,517	26,713,994	215,185	410,018
Securities transactions	484,613	6,030	-	-	490,643	2,120	2,310
Commodity transactions	53,345	124,505	28,219	-	206,069	11,595	11,615
Derivative instruments total	**42,349,015**	**23,186,550**	**89,537,398**	**24,851,877**	**179,924,840**	**1,018,132**	**1,351,031**

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

PLN '000	30.06.2018	31.12.2017
Bonds and notes issued by:		
Central Banks**	-	1,399,713
Other banks, including:	34,781	32,576
Covered bonds in fair value hedge accounting	-	32,576
Other financial sector entities	310,244	82,192
Central governments, including:	15,363,722	15,924,958
Covered bonds in fair value hedge accounting	-	2,492,215
Debt securities measured at fair value through other comprehensive income, total*	**15,708,747**	**17,439,439**
Including:		
Listed instruments on the active market	15,708,747	16,039,726
Unlisted instruments on the active market	-	1,399,713

** Corresponds to the 'Debt securities available-for-sale' in accordance with IAS 39.*
***As at 30 June 2018 part of securities (bonds) issued by other banks in the amount of PLN 34,781 thousand is covered by guarantee of State Treasury (31 December 2017: PLN 32,576 thousand)*

17. Amounts due from customers

PLN '000	30.06.2018	31.12.2017*
Amounts due from financial sector entities		
Loans, placements and advances	529,171	444,754
Debt financial assets unlisted**	1,201,095	1,200,636
Receivables due to purchased securities with a repurchase agreement	72,195	-
Guarantee funds and deposits pledged as collateral	335,503	365,788
Other receivables	1,336	1,312
Total gross value	**2,139,300**	**2,012,490**
Impairment write-downs	(2,034)	(17,473)
Total net value	**2,137,266**	**1,995,017**
Amounts due from non-financial sector entities		
Loans and advances	17,754,014	16,722,365
Unlisted debt financial assets**	496,074	496,125
Purchased receivables	1,291,501	1,193,041
Realized guarantees	483	1,038
Other receivables***	17,098	11,757
Total gross value	**19,559,170**	**18,424,326**

PLN '000	**30.06.2018**	**31.12.2017***
Impairment write-downs	(666,556)	(570,310)
Total net value	**18,892,614**	**17,854,016**
Total net value of receivables from customers	**21,029,880**	**19,849,033**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*
*** Corresponds to the 'Unlisted debt securities' in accordance with IAS 39.*
**** As at 30 June 2018 position "Other receivables" contains leasing receivables in amount PLN 2,206 thousand (31 December 2017: PLN 3,982 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	22,117,059
Impairment write-downs including contract interest in Stage 3	(1,087,179)
Net total value	**21,029,880**

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	-	-	-	**(587,783)**
Impact of adopting IFRS 9	-	-	-	(86,124)
Reclassification	-	-	-	5,178
Loss allowance as at 1 January 2018	**(54,767)**	**(76,847)**	**(537,115)**	**(668,729)**
Transfer among stages	710	(439)	(271)	-
Creation/Realeses in the period though 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)**	**(529,358)**	**(668,590)**

As at 30 June 2018, the Group did not identify POCI assets (purchased or originated credit-impaired assets").

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

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

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 Group.

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	2,207	3,982
Impairment write-downs	(2,174)	(2,176)
Unrealized finance income	-	-
Net finance lease receivables	**33**	**1,806**

Finance lease income is presented in the 'interest income'.

18. Deferred income tax asset

PLN '000	**30.06.2018**	**31.12.2017**
Deferred income tax asset	410,629	371,401
Deferred income tax liability	202,410	195,497
Deferred income tax net asset	**208,219**	**175,904**

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

19. Other assets

PLN '000	**30.06.2018**	**31.12.2017**
Interbank settlements	4,075	3,469
Settlements related to brokerage activity	183,028	164,303
Income to receive	56,012	53,131
Staff loans out of the Social Fund	17,285	17,039
Sundry debtors	87,086	78,308
Prepayments	18,691	9,198
Other assets, total	**366,177**	**325,448**
Including financial assets*	291,474	263,119

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

20. Non-current assets held-for-sale

Changes in tangible fixed assets were as follows:

PLN '000	**01.01. – 30.06. 2018**	**01.01. – 31.12. 2017**
As the beginning of period	**1,928**	**1,928**
Increases (due to):		
Reclassification from tangible fixed assets	-	13,502
Decreases (due to):		
Sale	(1,928)	(13,502)
As at the end of period	**-**	**1,928**

In the first half of 2018 the Bank sold 2 real estates classified as fixed assets held for sale. The assets held for sale amounted to PLN 1,928 thousand and result on sale PLN (860) thousand.

In 2017 the perpetual usufruct right to property including the improvements located there, worth PLN 13,502 thousand, that are under the Group ownership, were reclassified from tangible fixed assets to non-current assets held-for-sale in accordance to the conclusion of Conditional Sale Contract (as at 14 June 2017). As a result of the implementation of the only condition of the Agreement, i.e. in view of the fact the President of the Capital City of Warsaw not exercise the pre-emptive right to purchase real estate the Rights Transfer Agreement was concluded on 19 July 2017, and as a result, the transfer of ownership and payment of the price by the Purchaser. Transaction parameters: gross book value equal to net value amounted to PLN13,502 thousand, net sale price amounted to PLN 24,000 thousand and the result on the transaction amounted to PLN 10,500 thousand.

21. Amounts due to banks

PLN '000	**30.06.2018**	**31.12.2017**
Current accounts	1,451,221	1,108,689
Time deposits	310,318	248,373
Credits and loans received	11,858	36,467
Liabilities due to sold securities under repurchase agreements	29,820	9,085
Other liabilities, including:	264,533	165,762
Hedge deposits	257,491	163,769
Total amounts due to banks	**2,067,750**	**1,568,376**

The movement in amounts due from banks is as follows:

PLN '000	**01.01.-30.06.2018**	**01.01.-30.06.2017**
As the beginning of period	**36,467**	**128,026**
Increses (due to):		
Received credits and loans	-	31,292
Received credit and loans interest	133	504
Currency differences	703	-
Decreases (due to):		
Credits and loans repayment	(25,393)	(118,861)
Interest repayment	(52)	(407)
Currency differences	-	(4,087)
As at the end of period	**11,858**	**36,467**

22. Amounts due to customers

PLN '000	**30.06.2018**	**31.12.2017**
Deposits from financial sector entities		
Current accounts	581,794	531,361
Deposits	5,804,665	4,321,787
	6,386,459	**4,853,148**
Deposits from non-financial sector entities		
Current accounts, including:	20,144,130	22,129,625
institutional customers	10,282,354	10,766,475
individual customers	8,815,400	8,536,410
budgetary units	1,046,376	2,826,740
Time deposits, including:	5,686,512	4,962,380
institutional customers	2,930,484	3,053,104
individual customers	2,185,910	1,812,310
budgetary units	570,118	96,966
	25,830,642	**27,092,005**
Total deposits	**32,217,101**	**31,945,153**

Other liabilities		
Liabilities due to sold securities under repurchase agreements	29,049	-
Other liabilities, including:	253,471	191,545
cash collateral	142,881	112,611
hedging deposits	63,008	40,671
Total other liabilities	**282,520**	**191,545**
Total amounts due to customers	**32,499,621**	**32,136,698**

23. Other liabilities

PLN '000	**30.06.2018**	**31.12.2017**
Staff benefits	42,114	37,590
Interbank settlements	193,164	293,405
Inter-system settlements	437	4,728
Settlements related to securities trade	61,753	-
Settlements related to brokerage activity	169,652	133,140
Settlements with Tax Office and National Insurance (ZUS)	57,161	20,857
Sundry creditors	287,161	172,434
Accruals:	303,721	237,601
Provision for employee payments	80,731	85,454
Provision for employee retirement	52,942	51,769
IT services and bank operations support	34,421	29,449
Consultancy services and business support	22,081	9,273
Other	113,546	61,656
Deferred income	19,018	19,838
Other liabilities, total	**1,134,181**	**919,593**
Including financial liabilities*	1,058,002	878,898

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

24. Financial assets and liabilities by maturity date

As at 30 June 2018

PLN '000	**Note**	**Total**	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**
Amounts due from banks (Gross)	14	965,179	456,202	-	-	508,977	-
Financial assets held-for-trading							
Debt securities held-for-trading	15	2,282,192	200,381	-	3,066	1,707,352	371,393
Financial assets measured at fair value through other comprehensive income							
Debt securities measured at fair value through other comprehensive income	16	15,708,747	-	-	122,978	12,650,353	2,935,416
Amounts due from customers (gross)							
Amounts due from financial sector entities	17	2,139,300	427,374	-	1,111,926	600,000	-
Amounts due from non-financial sector entities	17	19,559,170	7,007,954	1,512,227	2,679,544	6,205,407	2,154,038
Amounts due to banks	21	2,067,750	2,036,837	8,205	22,615	56	37
Amounts due to customers							
Amounts due to financial sector entities:	22	6,475,433	5,993,257	432,106	50,049	-	21
Amounts due to non-financial sector entities	22	26,024,188	24,695,365	954,522	357,349	16,899	53

As at 31 December 2017*

PLN '000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
Amounts due from banks (Gross)	14	837,885	569,301	1,044	-	267,540	-
Financial assets held-for-trading							
Debt securities held-for-trading	15	1,143,908	3,037	-	30,104	624,158	486,609
Financial assets available-for-sale							
Debt securities available-for-sale	16	17,439,439	1,399,713	-	-	11,589,050	4,450,676
Amounts due from customers (gross)							
Amounts due from financial sector entities	17	2,012,490	431,822	-	80,668	1,500,000	-
Amounts due from non-financial sector entities	17	18,424,326	6,539,253	1,586,970	1,402,874	6,833,854	2,061,375
Amounts due to banks	21	1,568,376	1,512,790	6,635	42,594	6,314	43
Amounts due to customers							
Amounts due to financial sector entities:	22	4,890,736	4,711,398	174,350	4,957	12	19
Amounts due to non-financial sector entities	22	27,245,962	26,126,664	729,103	358,935	31,207	53

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

25. 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	Note	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	14	961,204	961,198	836,774	836,774
Amounts due from customers	17	21,029,880	21,057,602	19,849,033	19,809,377
Liabilities					
Amounts due to banks	21	2,067,750	2,067,766	1,568,376	1,568,474
Amounts due to customers	22	32,499,621	32,498,379	32,136,698	32,135,871

** On 1st. January 2018 Group 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 Bank's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.

  The Group applies the following methods of measurement of particular types of derivative instruments:
  - FX forwards: discounted cash 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 consolidated 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 from an active market where the 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 instruments in the consolidated statement of financial position, in accordance with a fair value classified by above levels.

As at 30 June 2018

PLN '000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	15	2,091,876	1,440,712	-	3,532,588
Derivatives		79	1,240,719	-	1,240,798
Debt securities		2,082,199	199,993	-	2,282,192
Equity instruments		9,598	-	-	9,598
Debt investment financial assets measured at fair value through other comprehensive income*	16	15,673,966	34,781	-	15,708,747
Equity and other instruments measured at fair value through income statement**		1,025	-	48,012	49,037
Financial liabilities					
Financial liabilities held-for-trading	15	79,347	1,539,221	-	1,618,568
Short sale of securities		78,891	-	-	78,891
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	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	15	1,161,980	1,017,945	-	2,179,925
Derivatives		188	1,017,944	-	1,018,132
Debt securities		1,143,907	1	-	1,143,908
Equity instruments		17,885	-	-	17,885
Debt securities available-for-sale	16	16,007,151	1,432,288	-	17,439,439
Equity investments available for sale		1,316	-	23,062	24,378
Financial liabilities					
Financial liabilities held-for-trading	15	2,249	1,350,966	-	1,353,215
Short sale of securities		2,184	-	-	2,184
Derivatives		65	1,350,966	-	1,351,031
Hedge derivatives		-	50,191	-	50,191

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

On the 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 statements of Partnerships.

According to the Group'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 1 January 2017	**18,965**
Revaluation	4,097
As at the end of period	**23,062**

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

In the first half of 2018 the Group 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 Group has not made any changes in classification criteria of financial instruments (presented in the consolidated 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 Group 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 Group'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.

26. 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

PLN '000	01.01.- 30.06.2018	01.01.- 30.06.2017
Net gain/(loss) on financial assets measured at amortized cost (presentation in consolidated 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 consolidated income statement, these results are disclosed adequately in position 'Income interest' (similarly before the implementation of IFRS 9) and the position 'Debt investment financial assets measured at fair value through other comprehensive income' (before the implementation of IFRS 9 in position 'Debt investment securities available-for-sale').

27. Hedge accounting

The Group hedges against the risk of change in fair value of fixed interest rate debt securities measured at fair value though other comprehensive income. The hedged risk results from changes in interest rates.

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

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

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

As at 30 June 2018 the Group doesn't possess any hedged instruments. The cumulated amount of hedged adjustment under fair value in the statement of financial position for all hedged positions, for which making adjustments of gains and losses on the hedged fair value as at 30 June 2018 amounts to PLN (45,576) thousand.

28. 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)	49,938	53,980	108,092
	558,981	**514,585**	**577,098**

29. Seasonality or periodicity of business activity

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

30. 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.

31. Paid or declared dividends

Dividends paid

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 July 18, 2018 (the day of the dividend) and the day of the dividend payment for July 25, 2018 (the day of the dividend payment).

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

32. Changes in Group's structure

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

33. 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 2017 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	14,337,696	14,292,534	45,162	0.3%
Underwriting other issuers' securities issues	45,362	43,942	1,420	3.2%
	17,040,364	**16,816,482**	**223,882**	**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%**

34. Information about shareholders

The table below present the list of shareholders that hold, at both 30 June 2018 and the day of publishing this consolidated financial statement for the first half of 2018, directly or indirectly by dependent units, 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 consolidated financial statement for the first half of 2018, the structure of major shareholdings of the Bank has not undergone any changes.

35. Information on pending 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 Group 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 Group did not make any significant settlement in the first half 2018 .

36. Transactions with the key management personnel

PLN '000	30.06.2018		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 Group with members of the Management Board and the Supervisory Board are at arm's length.

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.

37. Related parties

Transactions with related parties

The Group 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 Group enters into transactions with related entities, in particular with entities of Citigroup Inc.

The transactions with related entities result from current activity of the Group, 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 Citigroup Inc. entities

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

PLN '000	**30.06.2018**	**31.12.2017**
Receivables	502,244	361,827
Deposits	-	-
Liabilities, including:	1,412,578	1,078,905
Deposits*	286,615	254,814
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

**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*	19,372	30,884
Interest and commission expense*	16,662	19,833
General administrative expenses	80,560	99,396
Other operating income	3,376	3,764

**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 Group 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 Group'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 Group 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 Group 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 Group's costs) in the from 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).

38. 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.

39. Significant 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 Group.

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