INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

OF THE CAPITAL GROUP OF

BANK HANDLOWY W WARSZAWIE S.A.

FOR THE FIRST QUARTER 2018

MAY 2018

SELECTED FINANCIAL DATA	PLN '000		EUR '000***	
	First quarter accruals	First quarter accruals	First quarter accruals	First quarter accruals
	period from 01.01.18 to 31.03.18	period from 01.01.17 to 31.03.17	period from 01.01.18 to 31.03.18	period from 01.01.17 to 31.03.17
Data related to the interim condensed consolidated financial statements				
Interest income	312,557	312,330	74,803	72,819
Fee and commission income	163,515	155,342	39,133	36,218
Profit before tax	196,651	75,119	47,064	17,514
Net profit	145,842	42,656	34,904	9,945
Comprehensive income	232,697	74,410	55,690	17,349
Increase/(decrease) in net cash	3,774	1,616,084	903	376,789
Total assets*	44,483,343	43,037,596	10,569,881	10,318,539
Amounts due to banks*	3,221,301	1,568,376	765,427	376,028
Amounts due to customers*	31,324,123	32,136,698	7,443,061	7,704,979
Equity	7,096,000	6,864,860	1,686,111	1,626,821
Ordinary shares	522,638	522,638	124,186	123,854
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	54.31	52.54	12.90	12.45
Total capital adequacy ratio (%)*	17.3	17.9	17.3	17.9
Earnings per share (PLN / EUR)	1.12	0.33	0.27	0.08
Diluted earnings per share (PLN / EUR)	1.12	0.33	0.27	0.08
Data related to the interim condensed standalone financial statements				
Interest income	312,271	312,017	74,735	72,746
Fee and commission income	152,004	141,934	36,379	33,092
Profit before tax	195,206	71,381	46,718	16,642
Net profit	144,837	39,630	34,663	9,240
Comprehensive income	231,677	71,612	55,446	16,696
Increase/(decrease) in net cash	3,768	1,616,083	902	376,788
Total assets*	44,302,149	42,863,964	10,526,826	10,276,910
Amounts due to banks*	3,221,186	1,568,261	765,400	376,001
Amounts due to customers*	31,410,351	32,172,441	7,463,550	7,713,549
Equity	7,030,715	6,795,538	1,670,599	1,610,393
Ordinary shares	522,638	522,638	124,186	123,854
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	53.81	52.01	12.79	12.33
Total capital adequacy ratio (%)*	17.0	17.6	17.0	17.6
Earnings per share (PLN/EUR)	1.11	0.3	0.27	0.07
Diluted earnings per share (PLN / EUR)	1.11	0.3	0.27	0.07
Declared or paid dividends per share (PLN/EUR)**	4.11	4.53	0.98	1.07

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

***The presented ratios are related to declared dividend from the distribution of 2017 profit and dividend paid in 2017 from the distribution of 2016 profit.*

****The following exchange rates were applied to convert PLN to EUR: for the statement of financial position - NBP average exchange rate as at 31 March 2018 – 4.2085 (as at 31 December 2017: PLN 4.1709; as at 31 March 2017 – PLN 4.2198); for the income statement, a statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in the first quarter of 2018 - PLN 4.1784 (in the first quarter of 2017: PLN 4.2891).*

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Condensed consolidated income statement

PLN '000	For the period	First quarter accruals period from 01.01.18 to 31.03.18	First quarter accruals period from 01.01.17 to 31.03.17*[a]
Interest income		312,557	312,330
Similar income		15,425	n/a
Interest expense and similar charges		(50,816)	(58,054)
Net interest income		**277,166**	**254,276**
Fee and commission income		163,515	155,342
Fee and commission expense		(21,918)	(21,049)
Net fee and commission income		**141,597**	**134,293**
Dividend income		**58**	**-**
Net gain/(loss) on trading financial instruments and revaluation		**97,556**	**72,635**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income[b]		**36,701**	**4,986**
Net gain/(loss) on other equity instruments[c]		**476**	**292**
Net gain/(loss) on hedge accounting		**3,682**	**4,581**
Other operating income		16,599	7,535
Other operating expenses		(6,359)	(11,506)
Net other operating income		**10,240**	**(3,971)**
General administrative expenses		**(327,389)**	**(326,324)**
Depreciation and amortization		**(18,680)**	**(16,646)**
Profit on sale of other assets		**(232)**	**2**
Net impairment on financial assets[d]		**(5,532)**	**(29,414)**
Operating income		**215,643**	**94,710**
Share in net profits of entities valued at equity method		**6**	**2**
Tax on certain financial institutions		**(18,998)**	**(19,593)**
Profit before tax		**196,651**	**75,119**
Income tax expense		**(50,809)**	**(32,463)**
Net profit		**145,842**	**42,656**
Including:			
Net profit attributable to Bank's shareholders		145,842	42,656
Weighted average number of ordinary shares (in pcs)		130,659,600	130,659,600
Earnings per share (in PLN)		1.12	0.33
Diluted net earnings per share (in PLN)		1.12	0.33

a. *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" and IFRS 15 "Revenues from contracts with customers" for the first time without restatement of comparative data for earlier periods.*

b. *Corresponds to the 'Net gain on debt investment securities available-for-sale' in accordance with IAS 39.*

c. *Corresponds to the 'Net gain on equity investment instruments available-for-sale' in accordance with IAS 39.*

d. *Corresponds to the 'Net impairment due to financial assets and provisions for granted financial liabilities and guarantees' in accordance with IAS 39.*

Condensed consolidated statement of comprehensive income

PLN '000	First quarter accruals period from 01.01.18 to 31.03.18	First quarter accruals period from 01.01.17 to 31.03.17*[a]
Net profit	**145,842**	**42,656**
Other comprehensive income, that might be subsequently reclassified to profit or loss:		
Net value of financial assets measured at fair value through other comprehensive income[e]	86,808	32,007
Currency translation differences	47	(253)
Other comprehensive income net of tax	**86,855**	**31,754**
Total comprehensive income	**232,697**	**74,410**

Including:		
Comprehensive income attributable to Bank's shareholders	**232,697**	**74,410**

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

Condensed consolidated statement of financial position

State as at *PLN '000*	31.03.2018	31.12.2017*[a]
ASSETS		
Cash and balances with the Central Bank	466,403	462,126
Amounts due from banks	1,222,059	836,774
Financial assets held-for-trading	4,106,872	2,179,925
Debt financial asstes measured at fair value through other comprehensive income[f]	16,185,931	17,439,439
Equity investments valued at equity method	10,670	10,664
Other equity investments[g]	43,000	26,500
Amounts due from customers	20,184,502	19,849,033
Tangible fixed assets	341,460	376,775
Intangible assets	1,382,094	1,352,413
Current income tax receivables	1,251	667
Deferred income tax asset	175,672	175,904
Other assets	362,306	325,448
Non-current assets held-for-sale	1,123	1,928
Total assets	**44,483,343**	**43,037,596**
LIABILITIES		
Amounts due to banks	3,221,301	1,568,376
Financial liabilities held-for-trading	1,673,338	1,353,215
Hedging derivatives	-	50,191
Amounts due to customers	31,324,123	32,136,698
Provisions	41,046	18,300
Current income tax liabilities	64,455	52,340
Other liabilities	1,063,080	919,593
Total liabilities	**37,387,343**	**36,098,713**
EQUITY		
Ordinary shares	522,638	522,638
Share premium	3,003,969	3,003,969
Revaluation reserve	76,894	(9,118)
Other reserves	2,895,645	2,895,598
Retained earnings	596,854	525,796
Total equity	**7,096,000**	**6,938,883**
Total liabilities and equity	**44,483,343**	**43,037,596**

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

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

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:	-	-	86,808	47	145,842	-	232,697
Net profit	-	-	-		145,842	-	145,842
Currency translation differences from the foreign operations' conversion	-	-	-	47	-	-	47
Net valuation of financial assets measured at fair value through other comprehensive income[h]	-	-	86,808	-	-	-	86,808
Balance as at 31 March 2018	**522,638**	**3,003,969**	**76,894**	**2,895,645**	**596,854**	**-**	**7,096,000**

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:	-	-	32,007	(253)	42,656	-	74,410
Net profit	-	-	-	-	42,656	-	42,656
Currency translation differences from the foreign operations' conversion	-	-	-	(253)	-	-	(253)
Net valuation of available-for-sale financial assets	-	-	32,007	-	-	-	32,007
Balance as at 31 March 2017*[a]	**522,638**	**3,003,082**	**(182,836)**	**2,884,791**	**637,185**	**-**	**6,864,860**

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*[a]	**522,638**	**3,003,969**	**(9,118)**	**2,895,598**	**525,796**	**-**	**6,938,883**

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

Condensed consolidated statement of cash flows

PLN '000	First quarter accruals period from 01.01.18 to 31.03.18	First quarter accruals period from 01.01.17 to 31.03.17*a
Cash at the beginning of the reporting period	**514,585**	**672,882**
Cash flows from operating activities	41,806	1,703,810
Cash flows from investing activities	(12,587)	(37,115)
Cash flows from financing activities	(25,445)	(50,611)
Cash at the end of the reporting period	**518,359**	**2,288,966**
Increase/(decrease) in net cash	**3,774**	**1,616,084**

Supplementary notes to the interim condensed consolidated financial statements

1 General information about the Bank and the Capital Group

Bank Handlowy w Warszawie S.A. ("parent company", „the Bank","Citi Handlowy") Head Office is located in Warsaw at Senatorska 16, 00-923 Warszawa. The Bank was established on the strength 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 for an unspecified period of time.

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

The Group is a member of Citigroup Inc. The Bank is a subsidiary of Citibank Overseas Investments Corporation with headquarters in New Castle, USA. CitiBank Overseas Investment Corporation is 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 bank that offers a wide range of banking services for individuals and corporate customers on the domestic and foreign markets. Additionally, the Group conducts the brokerage activity through its subsidiary.

This interim condensed consolidated financial statements present financial data of the Capital Group of Bank Handlowy w Warszawie S.A. ('the Group'), that is composed of Bank Handlowy w Warszawie S.A. ('the Bank') as the parent company and its subsidiaries entities.

The Group consists of the following subordinated entities:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders 31.03.2018	% of votes at the General Meeting of Shareholders 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. w likwidacji	Warsaw	100.00	100.00
Entities valued at equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

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

2 Declaration of conformity

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

These interim condensed consolidated 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 as of 2018, No. 757) the Bank is obliged to publish its financial results for the 3 month period ended 31 March 2018 which is deemed to be the current interim financial reporting period.

3 Principles accepted at the composition of the consolidated financial statements

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 31 March 2018 and for the consolidated statement of financial position as at 31 March 2018. Comparative financial data are presented for the period from 1 January 2017 to 31 March 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.

- 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.

will not impact the financial statement significantly.

Standards applicable from 1 January 2018:

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

IFRS 9 “Financial instruments”

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

Classification and measurement of financial instruments

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

- Standard introduces 3 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. Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test) are consideration for the time value of money, credit risk, other basic lending risks (for example liquidity risk), costs (for example administration) associated with holding the financial asset for a particular period of time and profit margin.

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

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

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

Business model

In respect to business model, based on current and planned management approach to financial asset portfolios in respect of method of cash flow collection from groups of assets, 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.

Group is in the process of additional analysis of contract documentation to conclude whether it is necessary and how to implement changes to contract stipulations.

Other equity investments

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

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

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 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 for 2017	Measurement category – IAS 39	Measurement category – IFRS 9	Carrying amount – IAS 39	IFRS 9 implementation impact	Carrying amount – IFRS 9
Assets					
Amounts due from banks and customers	Amortised cost	Amortised cost	20,685,807	(87,360)	20,598,447
Financial assets available for sale – Equity investments	Purchase price less impairment	Fair value through profit and loss	26,500	16,064	42,564
Total assets			**20,712,307**	**(71,296)**	**20,641,011**

Consolidated financial statement's line for 2017	Measurement category – IAS 39	Measurement category – IFRS 9	IFRS 9 Carrying amount – IAS 39	IFRS 9 implementation impact	Carrying amount – IFRS 9
Liabilities					
Provisions	Provisions for off-balance sheet	Provisions for off-balance sheet	12,789	22,886	35,675
Total liabilities			**12,789**	**22,886**	**35,675**

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
- Elimination of the possibility of measurement of unquoted equity instruments at cost reduced by impairment and enforcing the obligation to measure them at fair value.

The values presented in the table above do not include the deferred tax effect in the form of asset, which increased to PLN 18,602 thousand. The total value of the impact of IFRS 9 implementation on Group's equity is negative and amounts to PLN 75,580 thousand.

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 for 2017				
Financial assets				
Cash and balances with the Central Bank	Amortised cost	Amortised cost	462,126	462,126
Amounts due from banks	Amortised cost	Amortised cost	836,774	835,538
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	Fair value through other comprehensive income	Fair value through other comprehensive income	17,439,439	17,439,439
Equity investments available for sale	Purchase price less impairment	Fair value through profit and loss	26,500	42,564
Amounts due from customers	Amortised cost	Amortised cost	19,849,033	19,762,909
Other assets	Amortised cost	Amortised cost	263,119	263,119
Financial liabilities				
Amounts due to banks	Amortised cost	Amortised cost	1,568,376	1,568,376
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	Fair value through profit and loss	Fair value through profit and loss (mandatory)	50,191	50,191
Amounts due to customers	Amortised cost	Amortised cost	32,136,698	32,136,698
Provisions	Provisions for off-balance sheet	Provisions for off-balance sheet	12,789	35,675

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	Remeasurements	Measurement category MSSF 9
Financial assets				
Amortised cost				
Amounts due from banks				
Opening balance	836,774			
Remeasurement		-	(1,236)	
Closing balance				835,538
Amounts due from customers				
Opening balance	19,849,033			
Remeasurement		-	(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)	-	
Remeasurement		-	-	
Closing balance				-
Equity investments				
Opening balance	26,500			
Fair value through profit and loss		(26,500)	-	
Remeasurement		-	-	
Closing balance				-
Fair value through other comprehensive income				
Debt securities				
Opening balance	-			
Reclassification from available for sale		17,439,439	-	
Remeasurement		-	-	
Closing balance				17,439,439
Fair value through profit and loss				
Other equity investments				
Opening balance	-			
Reclassification from available for sale		26,500	-	
Remeasurement		-	11,814	
Closing balance				38,314*
Financial liabilities				
Provisions				
Opening balance	12,789			
Remeasurement		-	22,886	
Closing balance				35,675

**Total impact of IFRS 9 should be considered together with impairment allowances in table below.*

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**	**Remeasurements**	**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' includes changes in the level of impairment allowance that occurred with the corresponding change in the gross carrying amount resulting from the increase in impairment allowances as a result of adjusting the gross carrying amount to IFRS 9. According to Transition Resource Group for Impairment of Financial Instruments guideline for the purpose of calculation of allowance for impaired loans, the gross carrying amount is calculated including interest accrued after impairment identification.*

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 Bank expects to be entitled in exchange for transferring the promised goods or services to the customer.
The stand-alone selling price is the price at which Bank would sell a promised good or service separately to a customer.
If a stand-alone selling price is not directly observable, 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		31 March 2018	31 December 2017	31 March 2017
1	USD	3.4139	3.4813	3.9455
1	CHF	3.5812	3.5672	3.9461
1	EUR	4.2085	4.1709	4.2198

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 “Other equity investments”.

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”.

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 45 “Cash flow statement”.

Recognition and derecognition

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.

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 are measured at amortized cost using the effective interest rate method except for financial liabilities that are measured at fair value through profit or loss. 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.

Impairment of assets measured at amortized cost

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

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

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

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

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

- significant financial difficulties of the issuer or obligor;
- reduction of the client credit rating by an accepted by the Bank External Credit Assessment Institution;
- breach of contract conditions, e.g. delay in interest or principal payments;
- occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider,
- high likelihood of bankruptcy of the client or obtaining information about the opening of bankruptcy proceedings, appearance by the debtor for declaration of bankruptcy or for similar protection or putting the debtor in bankruptcy or granting him similar protection if it would allow him to avoid or delay repayment of credit obligations;

- request of the Bank to initiate enforcement proceedings against the client;
- severe domestic or local economic conditions that may be related to the default of exposures;
- delay in payment equal to 90 days or more.

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

Non-recoverable loans (i.e., loans for which the 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 allowances for financial assets and net provisions for financial liabilities and guarantees granted”.

Forbearance

Forborne exposures are exposures for which concessions were granted due to economic or legal reasons (for financial conditions), resulting from financial difficulties of Obligor, that the lender would not otherwise extend.
The process of assessing exposures as "forborne" status is closely related to the credit risk management process, including the impairment recognition process for the exposure.
The Client's restructuring and its exposure does not always imply a loss of value (e.g. in the case of obtaining appropriate compensations). Impaired exposures are restructured exposures with forced restructuring.

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

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

Impairment allowances for expected credit losses

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

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

The impairment allowances for expected credit losses are calculated using statistical parameters for the groups of assets combined in portfolios having similar credit risk characteristics. In the financial statements, the 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 'Impairment loss on financial assets'.

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.

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.

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.

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

The 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 Macroeconomic conditions and the situation in money, foreign exchange and capital markets

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

Economic growth in the first quarter of 2018 was most probably slightly slower than 4.9% yoy recorded in the fourth quarter of 2017. Growth continues to be driven by domestic demand, primarily private consumption, as evidenced by the rapid growth of retail sales – by 8.1% yoy in Q1 2018 against 7% in Q4 2017. Growing consumer spending is the effect of further improvement in the labour market and the consumers' moods. Consumer sales continue to be supported by 500+ child benefit payments but given that households began to receive the benefits as early as mid-2016, their positive impact on the annual sales dynamic will probably be decreasing steadily. Consumption will be slowing down gradually. Nonetheless, its dynamic in 2018 is most likely to remain at approx. 4%. The second pillar of growth in Q1 2018 were investments as evidenced by further acceleration in construction production growth from an average of 17.6% yoy in Q4 2017 up to 27.4% yoy in spite of relatively adverse weather conditions. A greater inflow of EU funds, visible from the start of the year, will support investments this year. At the same time, however, industrial output has slowed down from 8% in the fourth quarter of 2017 to 5.9% in the initial three months of the current year, which signals that, in spite of the continuing positive sales and construction production trends, GDP growth has decreased slightly. A small decline was also reported in the seasonally adjusted PMI index from 54.2 points down to 54 points.

The registered unemployment rate grew slightly in January. This, however, was attributable to the seasonal trends. At the end of March, the unemployment rate reached 6.6%, its level reported at the end of the year 2017. Salary growth slowed down slightly from 7.1% yoy in Q4 2017 to 6.9% yoy but given the decline in the inflation rate salary growth accelerated in real terms from 4.7% up to 5.3% yoy. Employment dynamic fell from 4.5% yoy down to 3.7% yoy but this was owed to the statistical effect of a sample change by the Main Statistical Office (GUS). The labour market data confirm that enterprises are struggling with the increasing labour shortage. No symptoms of the deteriorating situation are currently being observed in the labour market. We expect a further decline in the unemployment rate over the coming quarters and an average salary growth in the enterprise sector above 7% yoy throughout the year.

Prices of consumer goods and services increased by 1.5% in Q1 2018 compared to 2.2% yoy in Q4 2017. Inflation picked up considerably in the first months of the year, primarily due to a slower rise in food and fuel prices. Even though, on average, the net inflation rate in Q1 amounted to 0.9% yoy, i.e. was similar to the previous quarter, the falling trend was visible in the figures for the subsequent months until 0.7% in March. The main inflation rate index declined in March down to 1.3% yoy. Over the coming months, the Bank expects gradual inflation growth. At the end of the year, it should approach the lower bracket of the fluctuation range around the target, i.e. 1.5% yoy. Meanwhile, the Bank expects gradual inflation and net inflation growth above the target next year in connection with the persisting demand pressure in the economy.

The Monetary Policy Council (MPC) has not decided to change monetary policy parameters yet. In its recent statements, the Monetary Policy Council has signaled that in spite of robust economic performance, it saw no need for monetary policy adjustments in 2018 and probably also during some part of 2019. The decline in inflation most probably has contributed to the continued dovish tone of the statements made by the MPC members. Under the baseline scenario, given the robustness of the economy, the situation in the labour market and the anticipated inflation growth next year, the Bank is of the view that there is room for tightening the monetary policy in 2019.

Following distinct appreciation of the Polish currency in 2017, the first quarter of 2018 saw the Polish zloty slightly weaken against euro. However, the Polish zloty appreciated against the US dollar primarily owing to euro's strengthening against the dollar in January, with the subsequent stabilisation of the EUR/USD exchange rate. Rising returns on the underlying debt markets, in particular in the US and the adjustments of the main stock indices combined with increased uncertainty surrounding the US protectionist policy and the negative surprises in the eurozone macroeconomic data could have contributed to the halting of the PLN appreciation trend. The dovish tone of the statements made by the members of the Monetary Policy Council was a negative domestic factor in the context of the Polish currency. Sound data reported from the domestic economy restricted the scale of depreciation of the Polish zloty. The EUR/PLN exchange rate rose to 4.213 from 4.176 at the end of the previous year. The USD/PLN exchange rate fell to 3.42 from 3.48, respectively.

The dovish attitude of the Monetary Policy Council, the falling inflation rate and declining returns on the underlying debt markets, including primarily in the eurozone, all contributed to the lower yields on the domestic Treasury bonds. The yield of 2Y Treasury bonds decreased from 1.71% at the end of December 2017 to 1.50% at the end of March while the yield of 10Y bonds fell from 3.30% to 3.17%, respectively. Meanwhile, the 3M WIBOR index decreased from 1.72% down to 1.70%.

2. Capital market situation

The first quarter of 2018 exhibited high volatility. In January, very positive sentiment allowed the WIG broad market index to reach the highest level in the history of the Warsaw Stock Exchange. However, sentiment in the capital markets deteriorated significantly in the following months with the increase in risk aversion resulting from concerns about the impact of a potential trade war between the U.S. and China.

Consequently, all main indices ended the first quarter in the red. Despite reaching record highs in January, the WIG broad market index lost 8.4%. The WIG20 blue chip index fell by 10.2%. In the case of the mWIG40 index (which includes medium caps), the drop amounted to 6%. In relative terms, the sWIG80 small-cap index performed the best, losing just 2.9% compared to the end of 2017.

Among sectoral sub-indices, the following ones brought positive returns: media companies (WIG-Media up 5% q/q), food companies (WIG-Spożywczy up 4.5% q/q) and real estate companies, although the increase there was very slight (WIG-Nieruchomości up 0.2% q/q). On the other hand, the following sectors suffered the worst: mining (WIG-Górnictwo down 20.2%), energy (down 17.8%) and fuels (down 16.7%).

In the first quarter of 2018, activity on the domestic initial public offering market remained limited. Just as in the corresponding period of 2017, just two new companies were listed on the main WSE market (one of which moved from the New Connect alternative market). The value of initial public offerings amounted to slightly less PLN 93 million (in the same period of the previous year it was PLN 99 million, and in the fourth quarter of 2017 – PLN 148 million). In the period in question, shares in 7 companies were delisted from the main market; as at the end of March 2018, 478 companies were traded on the WSE, including 50 foreign ones.

The market value of all companies listed on the WSE dropped by 5.6% q/q and amounted to PLN 1,302 billion, of which Polish companies accounted for 47% (PLN 608 billion, drop by 9.4% q/q).

Equity market indices as of 31 March 2018

Index	31 March 2018	31 December 2017	Change (%) QoQ	31 March 2017	Change (%) YoY
WIG	58,377.42	63,745.30	(8.4%)	57,911.31	0.8%
WIG-PL	59,533.04	65,263.00	(8.8%)	58,931.40	1.0%
WIG-div	1,095.16	1,213.88	(9.8%)	1,128.23	(2.9%)
WIG20	2,210.38	2,461.21	(10.2%)	2,175.96	1.6%
WIG20TR	3,815.86	4,261.88	(10.5%)	3,682.21	3.6%
WIG30	2,556.70	2,825.27	(9.5%)	2,516.38	1.6%
mWIG40	4,554.89	4,847.27	(6.0%)	4,743.66	(4.0%)
sWIG80	14,179.62	14,595.76	(2.9%)	16,382.22	(13.4%)
Sector sub-indices					
WIG-Banks	7,841.44	8,481.97	(7.6%)	6,991.74	12.2%
WIG-Construction	2,688.22	2,819.16	(4.6%)	3,518.62	(23.6%)
WIG-Chemicals	13,639.53	15,297.93	(10.8%)	16,091.27	(15.2%)
WIG- Energy	2,457.61	2,990.57	(17.8%)	2,876.20	(14.6%)
WIG- Mining	3,509.02	4,394.93	(20.2%)	4,157.63	(15.6%)
WIG-IT	1,971.63	2,041.80	(3.4%)	2,359.40	(16.4%)
WIG-Media	5,031.10	4,791.34	5.0%	5,167.54	(2.6%)
WIG- Developers	2,202.41	2,198.05	0.2%	1,933.40	13.9%
WIG- Oil & Gas	5,946.63	7,140.43	(16.7%)	6,561.69	(9.4%)
WIG- Food	3,792.63	3,627.59	4.5%	4,577.12	(17.1%)
WIG-Telecom	744.34	745.44	(0.1%)	683.57	8.9%

Source: WSE, DMBH;

Equity and bond trading value and derivatives trading volumes on WSE in the first quarter of 2018

	Q1 2018	Q4 2017	Change (%) QoQ	Q1 2017	Change (%) YoY
Shares (PLN million)*	110,406	122,118	(9.6%)	137,102	(19.5%)
Bonds (PLN million)	770	741	3.9%	758	1.6%
Futures (in thousand contracts)	4,044	3,332	21.4%	4,299	(5.9%)
Options (in thousand contracts)	180.9	138	31.1%	185	(2.2%)

**excluding calls*
Source: WSE, DMBH

5 Banking sector

According to the National Bank of Poland, at the end of the first quarter of 2018, the volume of loans granted to businesses reached almost PLN 334 bn, representing a 6.3% increase yoy. Following the 2016 decline, the annual growth dynamic of the portfolio of corporate loans fluctuated within a bracket slightly exceeding 5% throughout 2017 and in the first quarter of 2018. As regards the term structure, the growth in the volume of loans made increased together with their maturities. The fastest growth was observed for long-term loans (over 5 years) and those contracted for periods of 1 to 5 years (+10.1% and +8.2% yoy, respectively), while short-term loans (up to one year) increased only slightly by +0.3% yoy. The generic structure of corporate loans reflects a significant rise in the enterprises' investment activity, with the volume of investment loans rising by 8.8% yoy, which was attributable, to the greatest extent, to dynamic acceleration in mortgage loan volume growth (at the end of March 2018, their growth was reported at 14.1% yoy, whereas a year earlier the figure was -2.2% yoy). A major upturn was also reported for current loans whose growth dynamic accelerated to +7.2% yoy. Acceleration in the corporate loans growth volume across the listed areas was accompanied by a distinct decline in the volume of loans for other purposes (-27.0% yoy).

As at the end of the first quarter of 2018, the balance of household loans increased to slightly above PLN 670 billion (+3.3% yoy, PLN 21.4 billion), primarily owing to consumer loans (+7.6% yoy, PLN 12.1 billion) whose volume reached another record level of PLN 171.1 billion. As regards real property loans, a major slowdown in their growth rate down to merely 2.1% at the end of March 2018 on an annual basis was noticeable from the start of 2016. This is attributable to significant appreciation of the Polish zloty observed from January 2016, which results in continuous reduction of the volume of mortgage loans denominated in foreign currencies (-15.1% yoy at the end of March). Meanwhile, the volume of household mortgage loans denominated in the Polish zlotys continues to grow at a double-digit rate (+12.7% yoy).

At the end of March 2018, the volume of corporate deposits exceeded PLN 258 bn, representing a +4.5% increase in relation to the corresponding period of the previous year. Growth was recorded primarily in the current deposit area (+5.1% yoy, PLN 7.9 bn), whereas term deposits grew at a slightly lower rate (+3.4% yoy, PLN 3.1 bn).

The household deposits volume exceeded PLN 757 bn at the end of the first quarter, growing at the rate of 4.8% yoy. That growth was driven solely by current liabilities (+13% yoy, PLN 53.5 bn). At the same time, the banking sector experienced a major outflow of term deposits (-6.2% yoy, PLN 19.1 bn).

6 Financial analysis of the results of the Capital Group of the Bank

1. Consolidated statement of financial position

As of the end of the first quarter of 2018 total assets stood at PLN 44.5 billion, up by PLN 1.4 billion (or 3.4%) compared to the end of 2017. The change in total assets was predominantly due to the following events:

- Increase in assets held-for-trading by PLN 1.9 billion, or 88.4%;
- Decrease in the balance of debt investment financial assets by PLN 1.3 billion, or 7.2%.

Net amounts due from customers had the biggest share in the Group's total assets at the end of Q1, 2018. As of the end of March 2018 they accounted for 45.4% of total assets. The value of net amounts due from customers as of the end of Q1,2018 amounted to PLN 20.2 billion, up by PLN 0.3 billion (or 1.7%) compared to the end of 2017 as a result of increased lending to non-financial sector clients (PLN 0.4 billion, or 2.2%). In the non-financial sector, receivables grew on the institutional clients side (PLN 0.4 billion, or 3.9%; increase in the corporate clients segment and in the Commercial Bank). In the non-financial sector, amounts due on the retail customers side remained almost flat.

Net amounts due from customers

PLN '000	31.03.2018	31.12.2017	Change	
			PLN '000	%
Amounts due from financial sector entities, including:	**1,936,748**	**1,995,017**	**(58,269)**	**(2.9%)**
Receivables related to reverse repo transactions	-	-	-	-
Amounts due from non-financial sector entities, including:	**18,247,754**	**17,854,016**	**393,738**	**2.2%**
Institutional clients*	11,488,017	11,056,890	431,127	3.9%
Individual clients, including:	6,759,737	6,797,126	(37,389)	(0.6%)
unsecured receivables	5,271,378	5,323,199	(51,821)	(1.0%)
mortgage loans	1,488,359	1,473,927	14,432	1.0%
Total net receivables from customers	**20,184,502**	**19,849,033**	**335,469**	**1.7%**

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

Amounts due from customers divided into without recognized impairment/with recognized impairment

PLN '000	31.03.2018	31.12.2017	Change	
			PLN '000	%
Without recognized impairment, including:	20,091,687	19,714,214	377,473	1.9%
Without recognized impairment (stage 1), including:	18,409,631	n/a	-	-
non-financial sector entities	16,471,459	n/a	-	-
institutional clients*	10,302,229	n/a	-	-
individual clients	6,169,230	n/a	-	-
Without recognized impairment (stage 2), including:	1,682,056	n/a	-	-
non-financial sector entities	1,681,987	n/a	-	-

PLN '000	31.03.2018	31.12.2017	Change	
			PLN '000	%
institutional clients*	1,109,624	n/a	-	-
individual clients	572,363	n/a	-	-
With recognized impairment (stage 3), including:	672,376	660,094	12,282	1.9%
non-financial sector entities	672,376	642,958	29,418	4.6%
institutional clients*	316,238	322,643	(6,405)	(2.0%)
individual clients	356,138	320,315	35,823	11.2%
Dues related to matured derivative transactions (stage 3)	58,684	62,508	(3,824)	(6.1%)
Total gross receivables from customers, including:	**20,822,747**	**20,436,816**	**385,931**	**1.9%**
non-financial sector entities	18,825,822	18,361,818	464,004	2.5%
institutional clients*	11,728,091	11,269,153	458,938	4.1%
individual clients	7,097,731	7,092,665	5,066	0.1%
Impairment, including:	**(638,245)**	**(587,783)**	**(50,462)**	**8.6%**
dues related to matured derivative transactions	(50,832)	(54,295)	3,463	(6.4%)
Total net receivables from customers	**20,184,502**	**19,849,033**	**335,469**	**1.7%**
Impairment coverage ratio with recognized impairment**	**87.4%**	**80.8%**		
institutional clients*	78.4%	68.3%		
individual clients	94.9%	92.3%		
Non-performing loans ratio (NPL)	**3.2%****	**3.2%**		

**Institutional clients include enterprises, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.*
***According to Transition Resource Group for Impairment of Financial Instruments guideline the value of amounts due in stage 3 for presentation purposes should be increased by accrued contractual interest in total: 339 446 thou PLN. Such presentation results also in the corresponding increase in allowance by the same amount. Under such presentation approach NPL index would amount to 4,8%.*

In the first quarter of 2018 amounts due to customers were the dominant source of financing of the Group's activity and constituted 70.4% of the Group's liabilities and own funds. Total amounts due to customers as of the end of March 2018 amounted to PLN 31.3 billion, down by PLN 0.8 billion (or 2.5%) compared to the end of 2017, which was predominantly due to a decline in deposits of the non-financial sector clients by PLN 1.9 billion, or 7.1%. In the non-financial sector, amounts due to the institutional clients dropped (PLN 2.2 billion, or 13.3%, decrease in the public sector). Deposits in the non-financial sector on the individual customers side increased by PLN 0.3 billion, or 2.9%.

At the same time deposits of the financial sector clients grew by PLN 1.1 billion, or 22.1%.

Amounts due to banks amounted to PLN 3.2 billion as of the end of Q1, 2018, which represented 7.2% of the Group's liabilities and own funds. As compared to the end of 2017 amounts due to banks increased by PLN 1.7 billion, inter alia due to an increase in other liabilities.

Amounts due to customers

PLN '000	31.03.2018	31.12.2017	Change	
			PLN '000	%
Current accounts, including:	**19,776,186**	**22,660,986**	**(2,884,800)**	**(12.7%)**
financial sector entities	496,971	531,361	(34,390)	(6.5%)
non- financial sector entities, including:	19,279,215	22,129,625	(2,850,410)	(12.9%)
institutional clients*, including:	10,640,984	13,593,215	(2,952,231)	(21.7%)
budgetary units	1,088,762	2,826,740	(1,737,978)	(61.5%)
individual clients	8,638,231	8,536,410	101,821	1.2%
Term deposits, including:	**11,322,631**	**9,284,167**	**2,038,464**	**22.0%**
financial sector entities	5,428,805	4,321,787	1,107,018	25.6%
non-financial sector entities, including:	5,893,826	4,962,380	931,446	18.8%
institutional clients*, including:	3,880,339	3,150,070	730,269	23.2%
budgetary units	758,104	96,966	661,138	681.8%
individual customers	2,013,487	1,812,310	201,177	11.1%
Total customers deposits	**31,098,817**	**31,945,153**	**(846,336)**	**(2.6%)**
Other amounts due to customers	**225,306**	**191,545**	**33,761**	**17.6%**
Total amounts due to customers	**31,324,123**	**32,136,698**	**(812,575)**	**(2.5%)**

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

operating for households.

2. Consolidated income statement

In the first quarter of 2018, the Group delivered a consolidated net profit of PLN 145.8 million, up by PLN 103.2 million (or 241.9%) compared to Q1, 2017. At the same time revenues of the Group increased by PLN 100.4 million (or 21.5%) to PLN 567.5 million.

The main determinants of the Group's operating result in the first quarter of 2018 when compared to the first quarter of 2017 were the following:

- net interest income of PLN 277.2 million versus PLN 254.3 million in Q1, 2017, up by PLN 22.9 million (or 9.0%). Interest income in Q1, 2018 increased by PLN 15.7 million (or 5.0%), compared to the corresponding period of 2017 and amounted to PLN 328.0 million. Interest from amounts due from customers, constituting the main source of interest income, amounted to PLN 234.1 million, up by PLN 14.7 million (or 6.7%) compared to Q1, 2017. It was mainly due to an increase in the average volume of unsecured receivables from individual customers and a positive impact of the credit margin on the institutional clients side accompanied by their increasing credit volumes. At the same time interest income from debt securities held-for-trading increased by PLN 5.4 million (or 66.8%) due to the higher average balance of the portfolio.
- Interest expenses in Q1, 2018 dropped by PLN 7.2 million (or 12.5%), compared to the corresponding period of 2017. Interest expenses on amounts due to customers (from both the financial and non-financial sectors), constituting the main source of interest expenses, amounted to PLN 33.4 million, down by PLN 10.5 million (or 23.9%) compared to Q1, 2017, which was due to the decrease in institutional clients' deposits (by 3.7% YoY).

Net interest income

PLN '000	01.01 – 31.03.2018	01.01 – 31.03.2017	Change	
			PLN '000	%
Interest income from:				
Balances with the Central Bank	1,729	4,060	(2,331)	(57.4%)
Amounts due from banks	4,885	5,966	(1,081)	(18.1%)
Amounts due from customers, in respect of:	234,062	219,313	14,749	6.7%
financial sector	12,987	11,911	1,076	9.0%
non-financial sector, including:	221,075	207,402	13,673	6.6%
credit cards	70,924	70,184	740	1.1%
Debt investment financial assets measured at fair value through other comprehensive income*	71,881	73,367	(1,486)	(2.0%)
Similar income from				
Debt securities held-for-trading	13,570	8,137	5,433	66.8%
Liabilities with negative interest rate	1,855	1,487	368	24.7%
	327,982	**312,330**	**15,652**	**5.0%**
Interest expense and similar charges on:				
Amounts due to banks	(13,504)	(7,124)	(6,380)	89.6%
Amounts due to financial sector entities	(13,857)	(12,964)	(893)	6.9%
Amounts due to non-financial sector entities	(19,529)	(30,882)	11,353	(36.8%)
Loans and advances received	(73)	(177)	104	(58.8%)
Assets with negative interest rate	(144)	(277)	133	(48.0%)
Derivative instruments in hedge accounting	(3,709)	(6,630)	2,921	(44.1%)
	(50,816)	**(58,054)**	**7,238**	**(12.5%)**
Net interest income	**277,166**	**254,276**	**22,890**	**9.0%**

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

- net fee and commission income of PLN 141.6 million versus PLN 134.3 million in Q1, 2017, up by PLN 7.3 million (or 5.4%), mainly as a result of fee and commission income growth by PLN 8.2 million (or 5.3%), partially compensated by lower commission from insurance and investment products distribution, i.a. as a result of MiFID II implementation and market sentiment visible at the beginning of the first quarter.

Net fee and commission income

PLN '000	01.01 – 31.03.2018	01.01 – 31.03.2017	Change	
			PLN '000	%
Fee and commission income				
Insurance and investment products distribution	22,922	24,877	(1,955)	(7.9%)
Payment and credit cards	37,811	37,690	121	0.3%
Payment orders	26,293	25,385	908	3.6%
Custody services*	20,262	22,325	(2,063)	(9.2%)
Brokerage activity	14,365	13,413	952	7.1%
Clients' cash on account management services	7,244	6,926	318	4.6%
Guarantees granted	4,791	4,451	340	7.6%
Financial liabilities granted	1,827	1,454	373	25.7%
Other, including:	28,000	18,821	9,179	48.8%
installment products in credit card	6,550	6,440	110	1.7%
	163,515	**155,342**	**8,173**	**5.3%**
Fee and commission expense				
Payment and credit cards	(8,711)	(7,178)	(1,533)	21.4%
Brokerage activity	(3,365)	(4,009)	644	(16.1%)
Fees paid to the National Depository for Securities (KDPW)	(4,655)	(5,034)	379	(7.5%)
Brokerage fees	(1,402)	(1,086)	(316)	29.1%
Other	(3,785)	(3,742)	(43)	1.1%
	(21,918)	**(21,049)**	**(869)**	**4.1%**
Net fee and commission income				
Insurance and investment products distribution	22,922	24,877	(1,955)	(7.9%)
Payment and credit cards	29,100	30,512	(1,412)	(4.6%)
Payment orders	26,293	25,385	908	3.6%
Custody services	20,262	22,325	(2,063)	(9.2%)
Brokerage activity	11,000	9,404	1,596	17.0%
Clients' cash on account management services	7,244	6,926	318	4.6%
Guarantees granted	4,791	4,451	340	7.6%
Financial liabilities granted	1,827	1,454	373	25.7%
Fees paid to the National Depository for Securities (KDPW)	(4,655)	(5,034)	379	(7.5%)
Brokerage fees	(1,402)	(1,086)	(316)	29.1%
Other	24,215	15,079	9,136	60.6%
Net fee and commission income	**141,597**	**134,293**	**7,304**	**5.4%**

**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.*

- net income on trade financial instruments and revaluation of PLN 97.6 million in Q1, 2018 versus PLN 72.6 million in Q1, 2017, up by PLN 24.9 million, primarily due to the improved result on the Bank's proprietary management;
- net gain on investment debt securities of PLN 36.7 million versus PLN 5.0 million in Q1, 2017, up by PLN 31.7 million, primarily due to the realization of profits from the sale of the securities portfolio;
- result on other operating income and expenses in the amount of PLN 10.2 million versus PLN -4.0 million in the corresponding period of the previous year – up by PLN14.2 million stemming from the positive outcome of the dispute in the amount of PLN 10.2 million;
- general administrative and depreciation expenses of PLN 346.1 million versus PLN 343.0 million in the corresponding period of the previous year – a slight increase by PLN 3.1 million (or 0.9%).

  Staff expenses in Q1, 2018 amounted to PLN 148.0 million, up by 11.6% compared to the corresponding period of the previous year as a result of a higher reserve for employee bonuses and an increase in the average remuneration of employees in line with the market trends.

  The general administrative expenses included upfront recognition of the yearly amount of BFG resolution fund fee in the amount of PLN 47.8 million in Q1, 2018 compared to PLN 60.9 million fee paid in Q1, 2017. On the other hand, advertising and marketing costs increased by PLN 6.7 million YoY as a result of a number of promotional campaigns held and aimed at building Citi Handlowy brand awareness.

  Depreciation of fixed assets and intangible assets increased by PLN 2.0 million YoY as a result of the implementation of technology projects.

General administrative expenses and depreciation expense

PLN '000	01.01 – 31.03.2018	01.01 – 31.03.2017	Change	
			PLN '000	%
Staff expenses	**(148,049)**	**(132,602)**	**(15,447)**	**11.6%**
Remuneration costs	(102,057)	(97,914)	(4,143)	4.2%
Bonuses and rewards	(24,627)	(15,887)	(8,740)	55.0%
Social security costs	(21,365)	(18,801)	(2,564)	13.6%
Administrative expenses	**(179,340)**	**(193,722)**	**14,382**	**(7.4%)**
Telecommunication fees and hardware purchase costs	(43,452)	(49,536)	6,084	(12.3%)
Costs of external services, including advisory, audit, consulting services	(14,693)	(14,824)	131	(0.9%)
Building maintenance and rent costs	(16,313)	(17,106)	793	(4.6%)
Marketing costs	(14,995)	(8,342)	(6,653)	79.8%
Costs of cash management services, costs of cleaning services and other transaction costs	(8,989)	(9,187)	198	(2.2%)
Costs of external services related to distribution of banking products	(8,550)	(6,734)	(1,816)	27.0%
Postal services, office supplies and printmaking costs	(1,678)	(2,343)	665	(28.4%)
Training and education costs	(351)	(467)	116	(24.8%)
Banking and capital supervision costs	(3,071)	(2,977)	(94)	3.2%
Bank Guarantee Funds costs	(51,240)	(63,394)	12,154	(19.2%)
Other expenses	(16,008)	(18,812)	2,804	(14.9%)
Depreciation and amortization	**(18,680)**	**(16,646)**	**(2,034)**	**12.2%**
General administrative expenses and depreciation expense, total	**(346,069)**	**(342,970)**	**(3,099)**	**0.9%**

- net impairment allowances provisions for granted financial and guarantee commitments of PLN 5.5 million compared to the net impairment losses of PLN 29.4 million in Q1, 2017 (improvement by PLN 23.9 million, or 81.2%). The decrease in net impairment losses was recorded in the Consumer Banking Sector due to improvement of loan portfolio quality as well as implementation of changes that increased effectiveness of a recovery process. In the Institutional Banking segment the decrease in net impairment losses was mainly due to lower write-offs for impaired loans.

Net impairment on financial assets

PLN'000	2018			
	Institutional customers	Institutional customers	Banks	Total
Impairment allowances for financial assets				
Amounts due from banks and customers	(14,859)	(34,530)	(2,244)	(51,633)
Receivables from matured derivative transactions	(39)	-	-	(39)
	(14,898)	**(34,530)**	**(2,244)**	**(51,672)**
Reversals of impairment allowances for financial assets				
Amounts due from banks and customers	10,934	34,722	608	46,264
Receivables from matured derivative transactions	45	-	-	45
Debt investment financial assets measured at fair value through other comprehensive income	442	-	-	442
Other	(1,648)	1,630	-	(18)
	9,773	**36,352**	**608**	**46,733**
Net impairment allowances for financial assets	**(5,125)**	**1,822**	**(1,636)**	**(4,939)**
Created provisions for granted financial and guarantee commitments	(8,812)	(49)	(93)	(8,954)
Releases of provisions for granted financial and guarantee commitments	8,298	-	63	8,361
Net impairment allowances provisions for granted financial and guarantee commitments	**(514)**	**(49)**	**(30)**	**(593)**
Net impairment on financial assets	**(5,639)**	**1,773**	**(1,666)**	**(5,532)**

- The total charge to the income statement of the Group due to the tax on certain financial institutions in Q1, 2018 amounted to PLN 19.0 million compared to PLN 19.6 million in Q1, 2017.

3. Financial Ratios

In the thirst quarter of 2018, the key efficiency ratios were as follows:

Total financial ratios	Q1 2018	Q1 2017
ROE *	10.0%	8.7%
ROA**	1.4%	1.2%
Cost/Income	61%	73%
Loans to non-financial sector/Deposits from non-financial sector	72%	63%
Loans to non-financial sector/Total assets	41%	39%
Net interest income/Revenue	47%	54%
Net fee and commission income/Revenue	25%	29%

**Sum of net profit for the last four quarters to the average equity for the last four quarters (excluding net profit for the current year).*
*** Sum of net profit for the last four quarters to the average assets for the last four quarters.*

Group employment*

In full time job equivalents (FTE)	01.01 – 31.03.2018	01.01 – 31.03.2017	Change	
			FTEs	%
Average employment in the first quarter	3,473	3,607	(134)	(3.7%)
Employment at the end of quarter	3,457	3,600	(143)	(4.0%)

**does not include employees on parental and unpaid leave*

Capital adequacy*

PLN '000	31.03.2018	31.12.2017
Common Equity Tier I	5,001,989	4,981,895
Tier I Capital	5,001,989	4,981,895
Own Funds	5,001,989	4,981,895
The total amount of risk exposure	28,865,123	27,882,101
Common Equity Tier 1 capital ratio	17.3%	17.9%
Tier 1 capital ratio	17.3%	17.9%
Total capital ratio	**17.3%**	**17.9%**
Leverage Ratio	10.0%	10.5%

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

Overview of RWAs

PLN '000			RWA		Minimum capital requirements
CRR			31.12.2017	31.03.2018	31.03.2018
	1	**Credit risk (excluding CCR)**	**20,911,562**	**21,583,459**	**1,726,677**
Article 438 (c) (d)	2	Of which the standardised approach	20,911,562	21,583,459	1,726,677
Article 438 (c) (d)	3	Of which the foundation IRB (FIRB) approach	-	-	-
Article 438 (c) (d)	4	Of which the advanced IRB (AIRB) approach	-	-	-
Article 438 (d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	--	
Article 107 Article 438 (c) (d)	**6**	**CCR**	**1,335,653**	**1,433,670**	**114,694**
Article 438 (c) (d)	7	Of which mark to market	722,737	709,411	56,753
Article 438 (c) (d)	8	Of which original exposure	-	-	-
	9	Of which the standardised approach	-	-	-
	10	Of which internal model method (IMM)	-	-	-
Article 438 (c) (d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-
Article 438 (c) (d)	12	Of which CVA	612,916	724,259	57,941
Article 438 (e)	**13**	**Settlement risk**	**1**	**-**	**-**
Article 449 (o) (i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**951,516**	**951,118**	**76,089**

	15	Of which IRB approach	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-
	18	Of which standardised approach	951,516	951,118	76,089
Article 438 (e)	**19**	**Market risk**	**1,030,143**	**1,173,499**	**93,880**
	20	Of which the standardised approach	1,030,143	1,173,499	93,880
	21	Of which IMA	-	-	-
Article 438 (e)	22	Large exposures	46,825	265,797	21,264
Article 438 (f)	**23**	**Operational risk**	**3,606,401**	**3,457,580**	**276,606**
	24	Of which basic indicator approach	-	-	-
	25	Of which standardised approach	3,606,401	3,457,580	276,606
	26	Of which advanced measurement approach	-	-	-
Article 437 (2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	466,417	465,853	37,268
Article 500	28	Floor adjustment			
	29	**Total**	**27,882,101**	**28,865,123**	**2,309,210**

7 Segment reporting

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

The Group is managed at the level of two operating segments – Institutional Banking and Consumer Banking. The valuation of segment's assets and liabilities as well as calculation of its results is based on 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 Group's segments is based on prices derived from market rates. The 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 consisting in credit and deposit activities, the segment provides services in the area of cash management, trade finance, 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 on 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 of the Group by business segment

For the period	01.01. – 31.03.2018			01.01. – 31.03.2017		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Net interest income	128,945	148,221	277,166	111,552	142,724	254,276
Internal interest income, including:	(7,140)	7,140	-	(7,011)	7,011	-
Internal income	-	7,140	7,140	-	7,011	7,011
Internal expenses	(7,140)	-	(7,140)	(7,011)	-	(7,011)
Net fee and commission income	73,246	68,351	141,597	63,389	70,904	134,293
Dividend income	17	41	58	-	-	-
Net gain/(loss) on trading financial instruments and revaluation	90,716	6,840	97,556	64,406	8,229	72,635

For the period	01.01. – 31.03.2018			01.01. – 31.03.2017		
PLN '000	**Institutional Banking**	**Consumer Banking**	**Total**	**Institutional Banking**	**Consumer Banking**	**Total**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	36,701	-	36,701	4,986	-	4,986
Net gain/(loss) on other equity instruments	476	-	476	292	-	292
Net gain/(loss) on hedge accounting	3,682	-	3,682	4,581	-	4,581
Net other operating income	3,660	6,580	10,240	4,449	(8,420)	(3,971)
General administrative expenses	(162,821)	(164,568)	(327,389)	(165,098)	(161,226)	(326,324)
Depreciation and amortization	(4,720)	(13,960)	(18,680)	(5,006)	(11,640)	(16,646)
Profit on sale of other assets	(232)	-	(232)	2	-	2
Net impairment on financial assets	(6,240)	708	(5,532)	(13,648)	(15,766)	(29,414)
Operating income	**163,430**	**52,213**	**215,643**	**69,905**	**24,805**	**94,710**
Share in net profits of entities valued at equity method	6	-	6	2	-	2
Tax on certain financial institutions	(13,856)	(5,142)	(18,998)	(14,298)	(5,295)	(19,593)
Profit before tax	**149,580**	**47,071**	**196,651**	**55,609**	**19,510**	**75,119**
Income tax expense			(50,809)			(32,463)
Net profit			**145,842**			**42,656**

State as at	31.03.2018			31.12.2017		
PLN '000	**Institutional Banking**	**Consumer Banking**	**Total**	**Institutional Banking**	**Consumer Banking**	**Total**
Total assets	**37,374,372**	**7,108,971**	**44,483,343**	**35,906,089**	**7,131,507**	**43,037,596**
Total liabilities and shareholders' equity, including:	**31,195,981**	**13,287,362**	**44,483,343**	**30,134,111**	**12,903,485**	**43,037,596**
Liabilities	25,729,088	11,658,255	37,387,343	24,799,594	11,299,119	36,098,713

8 Activities of the Group

1. <u>Institutional Banking</u>

1.1. Summary of segment results

PLN '000	Q1 2018	Q1 2017	Change	
			PLN '000	**%**
Net interest income	128,945	111,552	17,393	15.6%
Net fee and commission income	73,246	63,389	9,857	15.6%
Net income on dividends	17	-	17	-
Net gain/(loss) on trading financial instruments and revaluation	90,716	64,406	26,310	40.9%
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income[b]	36,701	4,986	31,715	636.1%
Net gain/(loss) on other equity instruments	476	292	184	63.0%
Net gain/(loss) on hedge accounting	3,682	4,581	(899)	(19.6%)
Net other operating income	3,660	4,449	(789)	(17.7%)
Total income	**337,443**	**253,655**	**83,788**	**33.0%**
General administrative expenses and depreciation	(167,541)	(170,104)	2,563	(1.5%)
Profit on sale of other assets	(232)	2	(234)	-
Net impairment on financial assets	(6,240)	(13,648)	7,408	(54.3%)
Share in net profits of entities valued at equity method	6	2	4	200.0%
Tax on certain financial institutions	(13,856)	(14,298)	442	(3.1%)
Profit before tax	**149,580**	**55,609**	**93,971**	**169.0%**

Cost/Income	**50%**	**67%**		

The key highlights that impacted the gross profit of the Institutional Banking Segment in Q1, 2018 when compared to the corresponding period of 2017 were as follows:

- Increase in net interest income as a result of the increased interest income from customers thanks to the increased credit volumes and a positive impact of the credit margin. Additionally, the positive dynamics in interest income from debt securities held-for-trading was observed due to the higher average balance of this portfolio:
- net income from trade financial instruments and revaluation of PLN 90.7 million in Q1,2018 compared to PLN 64.4 million in Q1, 2017, up by PLN 26.3 million, stemming primarily from the improved result on the Bank's proprietary management;
- net gain on investment debt securities of PLN 36.7 million versus PLN 5.0 million in Q1, 2017, up by PLN 31.7 million, which is primarily the result of the realization of profits from the sale of the portfolio of securities;
- decline in general administrative and depreciation expenses due to a lower BFG resolution fund fee compared to the fee paid in Q1, 2017, partially offset the increase in bonuses and rewards costs;
- a decline in net impairment losses by PLN 7.4 million YoY (PLN -6.2 million net impairment losses in Q1, 2018 compared to PLN 13.6 million of net impairment losses in Q1, 2017) primarily due to lower write-offs for impaired loans.

1.2. Institutional Bank and the Capital Markets

Institutional Bank

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

At the end of Q1 2018, the number of institutional clients (including strategic, global and corporate banking clients) amounted to 6,100, which is tantamount to maintenance of the level reported in Q1 2017.

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

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

Assets*

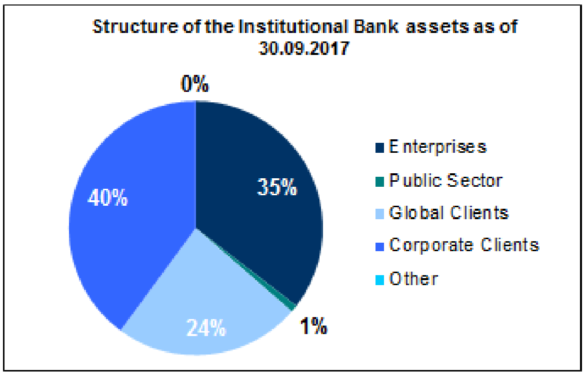
	31.03.2018	31.12.2017	31.03.2017	Change (1)/(2)		Change (1)/(3)	
PLN million	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises*, including:	4,845	4,494	4,783	351	8%	62	1%
SMEs	1,615	1,671	1,851	(56)	(3%)	(236)	(13%)
MMEs	3,230	2,823	2,932	407	14%	298	10%
Public Sector	56	66	133	(10)	(15%)	(77)	(58%)
Global Clients	3,223	3,271	2,601	(48)	(1%)	622	24%
Corporate Clients	4,993	4,819	4,787	174	4%	206	4%
Other**	1	2	15	(1)	(50%)	(14)	(93%)
Total Institutional Banking	**13,118**	**12,652**	**12,319**	**466**	**4%**	**799**	**6%**

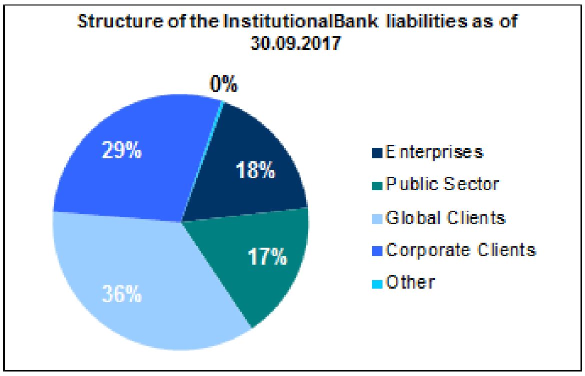
Liabilities*

	31.03.2018	31.12.2017	31.03.2017	Change (1)/(2)		Change (1)/(3)	
PLN million	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises*, including:	3,506	3,865	3,646	(359)	(9%)	(140)	(4%)
SMEs	2,034	2,129	2,315	(95)	(4%)	(281)	(12%)
MMEs	1,472	1,736	1,331	(264)	(15%)	141	11%
Public Sector	2,163	3,313	3,935	(1,150)	(35%)	(1,772)	(45%)
Global Clients	6,973	7,745	7,179	(772)	(10%)	(206)	(3%)

	31.03.2018	31.12.2017	31.03.2017	Change (1)/(2)		Change (1)/(3)	
PLN million	(1)	(2)	(3)	PLN million	%	PLN million	%
Corporate Clients	7,202	5,856	5,628	1,346	23%	1574	28%
Other**	67	71	97	(4)	(6%)	(30)	(31%)
Total Institutional Banking	**19,911**	**20,850**	**20,485**	**(939)**	**(5%)**	**(574)**	**(3%)**

** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SMEs) and from PLN 150 million to PLN 1.5 billion (MMEs).*
*** 'Other' include, among others, clients subject to restructuring and clients of Handlowy-Leasing Sp. z o.o.*





Key transactions and successes of Corporate and Commercial Bank in Q1 2018:

- Signing of an extension to the syndicated bond issue agreement worth PLN 5,820 million with an energy industry client. The Bank played a role of an Agent with total engagement in amount of PLN 750 million;
- Signing of an annex to the syndicated loan agreement worth PLN 1,590 million, extending the period of financing by 2 years, with a chemical industry client, The Bank played a role of an Agent with total engagement in amount of PLN 330 million;
- Granting of a structured loan of PLN 200 million to a leading retail store chain; Granted short-term financing paves the way for Bank Handlowy w Warszawie S.A. to participate in a 5-year syndicated loan agreement in 2018;
- Granting of a loan worth PLN 115 million to a leading importer from the automotive industry in Poland;
- Granting of a revolving credit facility worth PLN 98.4 million for equipment repair and maintenance, against letters of credit and a guarantee;
- Granting of an overdraft facility worth PLN 80 million for the manufacture of steel products;
- Increase by PLN 75 million of the limit for supplier financing programme for a leading retailer in Poland;
- Granting of an overdraft facility worth PLN 45 million for the manufacture of plastic construction products;
- Increase of a revolving loan worth PLN 40 million for wholesale of metals and metal ores against letters of credit;
- Making of a loan commitment worth PLN 25 million for the manufacture of chemicals;
- Financing of receivables worth PLN 17.5 million in collaboration with GSG/ICG for wholesale of foodstuffs;
- Establishment of collaboration with a leading Japanese company from the heavy industry sector;
- Winning of the mandate for provision of comprehensive banking services to a leading company from the industrial processing sector;

- In the Commercial Bank, 43 new clients were acquired in the first quarter of 2018, including: 5 Large Enterprises, 36 Small and Medium-sized Enterprises, and 2 Public Sector Customers. The Bank acquired 5 client relationships in the Strategic Clients and Global Clients segment.
- On March 15, the final of the 1st edition of the Entrepreneurship Development Programme was held at the National Stadium. The Programme aims to establish a business incubator and accelerator for start-up projects in the fintech, digital and broadly understood creative industry segments. The Programme's final gala was part of the Financial Education and Entrepreneurship Congress which attracted over 200 participants.

Activity and business achievements of the Treasury Division

- In the first quarter of 2018, Citi Handlowy won the competition of the Ministry of Finance for Treasury Securities Dealers (TSDs) in 2018. The Bank's recorded another victory in this prestigious competition organized since 2002 which confirms its strong position in this market segment. Citi Handlowy obtained the highest score over the four quarters being evaluated and came first on the list of 14 banks authorised to provide DSPW services in 2018, announced by the Ministry of Finance. The final result was decided by points awarded in three categories: primary market activity, secondary market activity and collaboration with the Ministry of Finance. During the evaluated period from 1 October 2016 to 30 September 2017, the Bank obtained the maximum score in the first two categories.

- During the wrap-up of the 2017 Stock Market Year in March, Citi Handlowy was awarded the following prizes in two categories: "Treasury BondSpot Poland Market Making Leader" and "Treasury BondSpot Poland Spot Market Leader".
- For years, Citi Handlowy has been one of the key entities in the custody services area and catered for the needs of the largest and most demanding institutional clients. Citi Handlowy has continuously relied on the optimum solutions customised to the needs of its clients.
- The CitiFx Pulse platform, which has operated in the market since 2005, enjoys our clients' solid trust. This is reflected by the fact that the platform accounts for approximately 80% of all FX transactions. Using the platform, a client can conclude transactions in the self-service model at any time, executing up to 300 transactions at once with a single click. The platform provides the Bank's clients with access to quotes 24 hours a day, providing constant access to market information, enabling currency exposures to be managed, convenient reports to be generated and online transactions to be confirmed. The tool is both innovative and functional and it offers automated FX solutions.
- In the first quarter of 2018, the Bank was active in the market of debt securities and syndicated loans by participating in the following transactions:
    - Extension of syndicated loan financing worth PLN 12.5 billion for a company from the telecommunications sector;
    - Granting of syndicated loan financing worth PLN 1.6 billion to a company from the chemical industry. The Bank played a role of an Agent;
    - Syndicated issue of PLN 1.5 billion worth of 7-year bonds for the European Investment Bank;
    - Syndicated issue of PLN 500 million worth of 3-year bonds for a domestic bank.

Transactional banking

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

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

- Electronic banking;
- Deposits and current accounts;
- Liquidity management products;
- Cross-border fund transfers;
- Card products;
- Payment and receivables processing: Direct Debit and SpeedCollect;
- Cash products;
- EU advisory; and
- Trade finance products.

Electronic banking

Keeping up with the development of state-of-the-art banking technologies as well as responding to the complex needs of clients who use electronic and mobile solutions, the CitiDirect BE system was streamlined. Emphasis was placed primarily on simplifying the payment processing procedure and commercialization of the eWnioski document exchange online platform was continued. The launch of new solutions that would facilitate the daily handling of accounts and products available via CitiDirect BE by the clients is planned in 2018.

In Q1 2018, the Bank processed approx. 7 million electronic transactions. Its participation in the modern electronic banking service market is an important element of the pursued strategy which aims to provide convenient solutions to clients.

Deposits and current accounts

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

Liquidity management products

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

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

Cross-border fund transfers

The Bank boasts a comprehensive and very extensive settlement offering in more than 130 currencies throughout the world. Responding to its clients' needs, the Bank promoted the multi-currency account offer addressed to the entrepreneurs developing their commercial, imports and exports activities. The offer of foreign payments in exotic currencies such as Chinese yuans, Mexican pesos, Indian rupees or Brazilian reals is unique in the Polish market.

Payment and receivables processing: Direct Debit and SpeedCollect

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

- Direct Debit

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

- SpeedCollect

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

Cash products

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

In addition to cash deposits, the Bank's clients also use cash withdrawals and money orders. As a result of the Bank's partnership with the national postal operator Poczta Polska S.A., these are available at all branches of Poczta Polska S.A. nationwide.

EU advisory

In the first quarter of 2018, the ELENA (European Local Energy Assistance) program which supported local and regional authorities and other public entities in facilitating the financing of energy efficiency improvement projects by local authorities was accounted for. Under the agreement signed in 2014 with the Kreditanstalt für Wiederaufbau (KfW) bank and using EU funds, the Bank offered to its clients repayable (loans) and non-repayable (grants) financing.

Trade finance products

The level of the Bank's assets in Q1 2018 associated with supplier financing grew by 25% in relation to the level of assets recorded in the corresponding period of 2017. Bank Handlowy w Warszawie S.A. remains the leading financial institution in deliveries and purchasing financing. Also the level of digitalization of trade finance transactions has improved, with over 90% of transactions being currently initiated via the online platform.

In March 2018, Bank Handlowy w Warszawie S.A. joined the Polish Factors Association (PZF), an organisation of providers of factoring services.

Custody services

The Bank is the leader of the domestic custodian institution market. It offers both custody services for foreign institutional investors and domestic financial entities, in particular insurance companies. The Bank provides custody services for pension funds and investment funds.

As at 30 March 2018, the Bank kept over 9,000 securities accounts and collective accounts.

At the same time, the Bank was the custodian for open pension funds (OFE): Aviva OFE Aviva BZ WBK, Nationale-Nederlanden OFE, Pekao OFE and voluntary pension funds: Nationale-Nederlanden DFE, DFE Pekao and Generali DFE, and also for the PFE Orange Polska occupational pension fund.

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

Brokerage activities

In the first quarter of 2018, DMBH brokered session transactions representing 8.8% of equity turnover in the secondary market. The value of session transactions executed via DMBH in the equity market on the WSE amounted to PLN 9.5 billion.

At the end of the first quarter of 2018, DMBH was the Market Maker for the shares of 64 companies listed on the Warsaw Stock Exchange (including 20 covered by the WIG20 blue chip index). That represented 13.2% of all shares traded on the WSE main market.

In the DMBH consumer segment, the strategy of intensive cooperation with the Bank was pursued further in the first quarter of 2018. The first quarter of 2018 also saw very high activity by consumers using the CitiFX Stocks transactional platform, which enables trading in shares and ETF instruments listed on major foreign exchanges. Owing to advisory services, which are increasingly popular in the CPC (Citi Private Client) segment, revenues from fees in foreign markets supplemented the traditional revenue stream from client activity on the WSE to a significant extent.

The number of brokerage accounts with DMBH at the end of the first quarter of 2018 amounted to 13,900, an increase of 7.2% compared to the corresponding period of 2017 and of 1.7% compared to the end of the previous quarter. The number of accounts continued to increase due to a steady growth in the number of brokerage service agreements concerning foreign market services performed via the CitiFX Stocks platform.

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

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

In view of the changes taking place on the brokerage services market for institutional clients, the development of the consumer segment is of particular importance for the Group. Another important area is capital market origination where the Group intends to be an active participant, continuing its long history of successes in this segment.

Summary Income Statement and Balance Sheet

Company's Name	Headquarter	% of authorized capital held by the Bank %	Total assets 31.03.2018 PLN '000	Total equity 31.03.2018 PLN '000	Net financial result for the period of 01.01-31.03.2018 PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	496,814	113,928	1,702

Leasing activities

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

Summary Income Statement and Balance Sheet

Company's Name	Headquarters	% of authorized capital held by the Bank %	Total assets 31.03.2018 PLN '000	Total equity 31.03.2018 PLN '000	Net financial result for the period of 01.01-31.03.2018 PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	22,430	22,318	(111)

2. Consumer Banking

2.1. Summary of the segmental results

PLN '000	Q1 2018	Q1 2017	Change	
			PLN '000	%
Net interest income	148,221	142,724	5,497	3.9%
Net fee and commission income	68,351	70,904	(2,553)	(3.6%)
Dividend income	41	-	41	-
Net gain/(loss) on trading financial instruments and revaluation	6,840	8,229	(1,389)	(16.9%)
Net other operating income	6,580	(8,420)	15,000	-
Total income	**230,033**	**213,437**	**16,596**	**7.8%**
General administrative expenses and depreciation	(178,528)	(172,866)	(5,662)	3.3%
Net impairment on financial assets	708	(15,766)	16,474	-
Tax on certain financial institutions	(5,142)	(5,295)	153	(2.9%)
Profit before tax	**47,071**	**19,510**	**27,561**	**141.30%**
Cost/Income	**78%**	**81%**		

The key highlights that impacted the gross profit of the Consumer Bank in Q1, 2018 when compared to the corresponding period of 2017 were as follows:

- Increase in net interest income as a result of the growth of the credit products portfolio (+5% YoY) and a decline in interest expenses. The drop in interest expenses was reported despite a significant increase in deposit balances (+4% YoY), as a result of a favorable structure of the portfolio of deposits;
- Decline in net fee and commission income, affected by abolition by the Bank the fee for overdue in loan payment by clients, and lower commission on insurance and investment products sale, partially due to implementation of MiFID II directive and market sentiment at the beginning of the first quarter;
- Increase in operating expenses as a result of higher marketing and technology costs , partially offset by saves as a result of initiatives aimed at optimizing the cost base;
- Decline in net impairment losses by PLN 16.5 million YoY (reversal impairment of PLN 0.7 million in Q1, 2018 compared to net impairment losses of PLN -15.8 million in Q1, 2017) mainly as a result of improvement of loan portfolio quality as well as implementation of changes that increased effectiveness of a recovery process.

2.2. Selected business data

PLN '000	Q1 2018	Q4 2017	Q1 2017	Change QoQ	Change YoY
Number of individual customers	692.2	691.7	684.3	0.5	7.8
Number of current accounts, including:	461.7	463.2	457.9	(1.6)	3.7
number of operating accounts*	101.9	100.9	97.6	1.0	4.3
Number of operating accounts acquired in given period	8.3	9.0	15.4	(0.7)	(7.1)
Number of saving accounts	142.9	144.4	148.1	(1.5)	(5.2)
Number of credit cards	696.3	702.9	701.3	(6.6)	(5.0)
Number of debit cards	249.8	251.2	265.7	(1.4)	(15.9)

**In the first quarter of 2018, there was a change in the classification of operating accounts. Previous quarters were adjusted.*

Net receivables from individual clients – management view

PLN '000	31.03.2018 (1)	31.12.2017 (2)	31.03.2017 (3)	Change (1)/(2)		Change YoY	
				PLN '000	%	PLN '000	%
Unsecured receivables, including:	5,271,378	5,323,199	5,086,393	(51,821)	(1.0%)	184,985	3.6%
Credit cards	2,524,258	2,535,457	2,327,663	(11,199)	(0.4%)	196,595	8.4%
Cash loans	2,678,586	2,735,544	2,702,350	(56,958)	(2.1%)	(23,764)	(0.9%)
Other unsecured receivables	68,534	52,198	56,380	16,336	31.3%	12,154	21.6%
Mortgage loans	1,488,359	1,473,927	1,323,231	14,432	1.0%	165,128	12.5%
Net client receivables	**6,759,737**	**6,797,126**	**6,409,624**	**(37,389)**	**(0.6%)**	**350,113**	**5.5%**

2.3. Key Business Highlights

Bank accounts

- **Current accounts**

At the end of Q1 2018, the number of personal current accounts stood at 461,000 (as against 457,000 at the end of Q1 2017), of which 263,000 in Polish zlotys and 198,000 in foreign currencies. The total balance of current accounts amounted to over PLN 5.78 billion at end Q1 2018, a growth of 9% on the corresponding period of the previous year. The increase in the balance has been the result of the Bank's strategy consisting of acquiring clients with medium and high incomes and strengthening relationships with existing clients.

- **Savings accounts**

The number of savings accounts in Q1 2018 was 142,000. The total savings account balance was PLN 2.7 billion, compared to 148,000 savings accounts with the total balance of PLN 2.9 billion in the corresponding period of the preceding year.

- **Changes in the offering**

As regards private clients, the Bank has continued to reward holders of new Citi Priority, Citigold and Citigold Private Client accounts by:

- promotional time deposit interest rates;
- cash back and gift cards to be used at shopping malls for new Citigold and Citigold Private Client clients;
- Citi Priority, Citigold and Citi Private Client recommendation program.

In March 2018, the revised Table of Fees and Charges took effect: Accounts and Credit Line for Individual Clients the key changes included:

- introduction of the monthly fee charged for access to CitiPhone telephone banking service for clients holding Citi Priority accounts;
- introduction of the fee charged for debit cards in the form of a contactless payment sticker for clients holding Citi Priority and CitiKonto type accounts; and
- new fees were introduced in connection with the issuance of certificates by the Bank.

Credit cards

At the end of the first quarter of 2018 the number of credit cards was 696,300. The cards portfolio decreased by ca. 6,500 cards as compared to the fourth quarter of 2017.

The debt balance on credit cards as at the end of the first quarter of 2018 amounted to PLN 2.5 billion. As a result, the Bank maintained its leading position in the credit card market in terms of the value of credit facilities extended in the form of credit cards, holding a market share of 25.6% according to the figures provided at the end of March 2018.

High activation levels and transaction volumes were maintained among newly acquired clients. The structure of credit cards sold in the first quarter of 2018 was dominated by the Citi Simplicity card with a share of 90%.

Cash loans and cash loans associated with credit card accounts

Unsecured cash advances (cash advances and cash advances associated with credit card accounts) stood at PLN 2.7 billion as at end Q1 2018, which was a decrease of 0.9% compared to the corresponding period of the previous year.
In the first quarter of 2018, total sales of unsecured cash advances, including cash advances for credit card holders, amounted to PLN 282 million.

Mortgage products

In Q1 2018, the Bank continued to sell mortgage loans via its own sales channels, including the services of credit agents and developers, while at the same time continuing its strategy of offering attractive products to clients from the Citigold Private Client, Citigold and Citi Priority segments. All new mortgage loans were granted to clients from these segments.

The value of mortgage products sold in Q1 2018 exceeded PLN 60 million. The balance of the mortgage loan portfolio at the end of the period discussed amounted to PLN 1.5 billion.

Insurance and investment products

At the end of Q1 2018, the total value of the funds managed in investment products (including insurance products, net of bi-currency investments) purchased by consumers via the Bank was 15% higher than at the end of the corresponding period of 2017.

Within the framework of its cooperation with DMBH, in Q1 2018 the Bank conducted 9 subscriptions for investment certificates issued by closed-end investment funds and 3 public offerings of bonds. As concerns structured products, the Bank conducted 29 structured bond subscriptions during the same period. The structured bonds were denominated in PLN (18 subscriptions), USD (8 subscriptions), and EUR (3 subscriptions).

Development of distribution channels

Online banking

In February 2017, a new version of the online platform for consumers and micro clients was released. The platform is based on responsive technology, i.e. it adapts to the device used by the client. Its modern design has been shaped by client comments, and its extensive functionality makes the use of other channels redundant. One of the many benefits for credit card holders is that they can manage their card limits themselves, divide transactions into instalments and purchase insurance cover. An additional feature is the new documentation management module, which makes it possible to send correspondence, approve agreements and download certificates from home. In the coming months, a refreshed module for managing the investment portfolio is to be deployed at Citibank Online, which will also be tailored to the client's device.

The number of active Citibank Online users, i.e. those who logged in to the online or mobile banking service using their browser or used the Citi Mobile app at least once every 30 days amounted to 348,000 at the end of the first quarter of 2018, representing an increase of over 4,000 users in relation to the corresponding period of 2017. The share of active users of Citibank Online on PCs within the entire portfolio of the Bank's clients amounted at the end of the first quarter of 2018 to 50.97%, an increase of 0.08 percentage points as compared to the first quarter of 2017.

At the same time, as at the end of the first quarter of 2018, digital users accounted for 74% of all clients who executed transactions, which translates to an increase of 1 p.p. compared to the first quarter of 2017.

In Q1 2018, the share of credit cards sold online stood at 43% as compared to the total level of acquisition of credit cards at the Bank.

Key improvements of basic online banking functionalities are being steadily introduced based on feedback from clients and online banking users; recently, the demographic data change module has been enhanced and a new online platform has been made available to retail banking small and medium-sized business clients.

Mobile banking

Owing to responsive technology, clients have access to all the features available in Citibank Online from any devices they use. Additionally, clients have access to a mobile app that includes features such as account balance snapshots without the need to log in, free-of-charge push notifications that keep clients informed about any changes to their accounts or cards, and also the fingerprint login functionality, which makes access to the application even easier and has been very much appreciated by clients.

At the end of the first quarter of 2018, the number of active mobile banking users, i.e. those who accessed mobile banking at least once every 30 days using the app or Citibank online using responsive technology, exceeded 135,000, an increase of ca. 36% compared to the first quarter of 2017.

The share of active users of mobile banking in the Citi Handlowy consumer portfolio stood at 20%, which represents an increase by 5 p.p. over the corresponding period of 2017.

Indirect and Direct Customer Acquisition

- **Smart Banking Ecosystem**

As concerns its branch network, Citi Handlowy continues to pursue its client acquisition strategy based on different outlet types and formats that are tailored to individual target client groups. The Personal Relationship Managers operating from CPC and Citigold Centres located in Poland's 9 largest cities are tasked with acquisition and service of Citigold Private Client and Citigold clients. At the same time, the Bank continues to develop remote service processes, which allows it to offer to clients an ever wider range of transactions without the need to visit a physical branch.

The Bank has been acquiring new clients, mainly from the Emerging Affluent segment, and selling credit products via 15 Smart outlets located in popular areas of the Polish cities. Additionally, the Bank takes advantage of the structures of Universal Bankers retail distribution channel to be present at the locations most frequented by its prospective clients, using stands and mobile sales points at popular shopping malls, cinemas, airports and gas stations. Relationship Managers also meet clients during attractive cultural and sports events as well as trade fairs. Cooperation with companies and office complexes is also developing very dynamically, helping us reach a broad range of retail clients. Consistent focus on process improvement and sales digitization translates into increasing sales effectiveness.
At the same time, the Bank focuses on building a light distribution network while making maximum use of the remote channels when acquiring and servicing its clients. Citi Handlowy currently operates three Smart Mini outlets and the summer version of a Smart Mini outlet which is deployed during major outdoor events throughout Poland. These are mini sales and client service points offering a wider range of services than other initiatives of the type found in the Polish market.

- **Citigold and Citigold Private Client branches**

As at the end of Q1 2018, the network dedicated to serving affluent clients consisted of 10 branches, which were divided into three types: Smart HUB Gold, HUB Gold and Investment Center branches.

In Q1 2018, the Bank continued its activities aimed to execute a strategy of transformation of the network of branches in major Polish cities. The strategy has been devised to ensure clients have access to a complete product service, relying on modern technology-based operating solutions which directly drive the efficiency of the performed transactions.

Changes to the network of outlets

Number of branches and other Points of Sale/touch points

	31.03.2018 (1)	31.12.2017 (2)	31.03.2017 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	**24**	**26**	**26**	**(2)**	**(2)**
HUB Gold	7	8	8	(1)	(1)
Smart HUB Gold	2	2	2	-	-
Blue	-	-	-	-	-
Investment Center	1	1	1	-	-
Smart branch	13	14	14	(1)	(1)
Corporate branch	1	1	1	-	-
Other POS:					
Smart Mini	3	4	3	(1)	-

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

9 Rating

As of end of the first quarter 2018, the Bank had full ratings awarded by Fitch Ratings ("Fitch").

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

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

**Viability rating is the view of the intrinsic creditworthiness of an institution, independent of external factors.*

In its justification the Fitch Ratings stated that Bank's ratings (IDRs) are driven by the Bank's intrinsic strength, as reflected in the Viability rating and underpinned by potential majority shareholder support (Citigroup).

The Viability rating of the Bank reflects its low-risk business model and higher capital buffers.

10 Financial instruments disclosure

Fair value of financial assets and liabilities

The table below presents the fair value of financial assets and liabilities valued at amortized cost in consolidated statement of financial position.

PLN '000	31.03.2018		31.12.2017	
	Balance value	Fair value	Balance value	Fair value
Financial assets				
Amounts due from banks	1,222,059	1,222,059	836,774	836,774
Amounts due from customers	20,184,502	20,218,037	19,849,033	19,809,377
Financial liabilities				
Amounts due to banks	3,221,301	3,221,360	1,568,376	1,568,474
Amounts due to customers	31,324,123	31,323,053	32,136,698	32,135,871

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 flows 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 and turnover are available.

  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 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 market prices for a given instrument or listed market prices for an alternative instrument,
  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments,
  - other techniques, such as yield curves based on alternative prices for a given financial instrument;
- Level III: financial assets/liabilities valued on the basis of valuation techniques using relevant 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 31 March 2018

PLN '000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	2,968,097	1,138,775	-	4,106,872
derivatives	421	1,138,774	-	1,139,195
debt securities	2,954,837	1	-	2,954,838
capital instruments	12,839	-	-	12,839
Debt investment financial assets measured at fair value through other comprehensive income	16,152,928	33,003	-	16,185,931
Other equity investments	1,156	-	41,844	43,000
Financial liabilities				
Financial liabilities held-for-trading	128,238	1,545,100	-	1,673,338
short sale of securities	128,103	-	-	128,103
derivatives	135	1,545,100	-	1,545,235

As at 31 December 2017

PLN'000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	1,161,980	1,017,945	-	2,179,925
derivatives	188	1,017,944	-	1,018,132
debt securities	1,143,907	1	-	1,143,908
equity instruments	17,885	-	-	17,885
Hedging derivatives				
Debt securities available-for-sale	16,007,151	1,432,288	-	17,439,439
Equity investments available for sale	1,316	-	23,062	24,378

PLN'000	Level I	Level II	Level III	Total
Financial liabilities				
Financial liabilities held-for-trading	2,249	1,350,966	-	1,353,215
short sale of securities	2,184	-	-	2,184
derivatives	65	1,350,966	-	1,351,031
Hedging derivatives	-	50,191	-	50,191

On the 31 March of 2018 the amount of financial assets classified to the Level III includes the share of PLN 23,658 thousand in Visa Inc. and the value of other minority shareholdings of PLN 18,186 thousand.

On the 31 December of 2017 the amount of financial assets classified to the Level III includes the share of PLN 23,062 thousand in Visa Inc.

The fair value measurement 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 Biuro Informacji Kredytowej S.A. and Krajowa Izba Rozliczeniowa S.A. were measured at fair value using the valuation model according to the book value of equity. For the other minority shares, the purchase price was adopted as the fair value, which in the Bank's opinion is its best approximation.

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.

In 3 months period of 2018 the Group did not sell any capital investments (minority shareholdings).

In 3 months period of 2018, among all equity investments, where fair value could not be established, the Group sold shares in Odlewnie Polskie S.A. The balance value of sold shares amounted to PLN 42 thousand and the profit on sales to PLN 292 thousand.

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.-31.03.2018 Other equity investments	01.01.-31.12.2017 Financial assets available-for-sale Equity investments
As at 31 December 2017	**23,062**	**18,965**
Reclassification/ Impact of adopting IFRS 9	18,186	-
As at 1 January 2017	41,248	-
Revaluation	596	4,097
As at the end of period	**41,844**	**23,062**

In the consolidated statement of financial position, except for assets described above, there are tangible assets available-for-sale, whose fair value decreased by sale cost is smaller than its carrying amount. In consequence, they are positioned in the consolidated statement of financial position at fair value, which as at 31 March 2018 was PLN 1,123 thousands (31 December 2017: PLN 1,928 thousands).

In the 3 month period of 2018 the Group has made no transfers between levels of instruments fair value due to established method of setting fair value.

In the 3 month period 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 3 month period 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 3 month period 2018 there was no change in the business or economic situation, that could influence the fair value of Group's financial assets or liabilities, independently whether these assets and liabilities were presented in fair value or amortized cost.

As at 31 March 2018 there was no significant change in fair value of financial instruments classified to measured at fair value portfolio in relation to the end of 2017. However, the increase of that portfolio was mainly due to an increase of portfolio of financial instruments held-for-trade in the first quarter of 2018

11 Impairment and provisions

PLN '000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI*	Total
Loss allowance - amounts due from banks					
Loss allowance as at 1 January 2018	**(2,223)**	**(124)**	**-**	**-**	**(2,347)**
Transfer	(179)	179	-	-	-
Increases due to origination and acquisition	(1,488)	-	-	-	(1,488)
Decreases due to derecognition	1	-	-	-	1
Changes due to change in credit risk (net)	(94)	(55)	-	-	(149)
Foreign exchange and other movements	(10)	-	-	-	(10)
Loss allowance as at 31 March 2018	**(3,993)**	**-**	**-**	**-**	**(3,993)**

PLN '000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI*	Total
Loss allowance - amounts due to customers					
Loss allowance as at 1 January 2018	**(54,767)**	**(76,847)**	**(537,115)**	**-**	**(668,729)**
Transfer	525	(426)	(99)	-	-
Increases due to origination and acquisition	(7,465)	(946)	(32,288)	-	(40,699)
Decreases due to derecognition	6,726	5,416	31,733	-	43,875
Changes due to change in credit risk (net)	289	(3,104)	(4,106)	-	(6,921)
Amounts written off	-	-	34,698	-	34,698
Foreign exchange and other movements	(14)	(33)	(422)	-	(469)
Loss allowance as at 31 March 2018	**(54,706)**	**(75,940)**	**(507,599)**	**-**	**(638,245)**

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

In the period 1 January – 31 March 2018 and in 2017 the Group has not made any value actualization write downs due to value loss of tangible assets, intangible assets and write downs reversals involving this subject.

12 Provision and asset due to differed income tax

PLN '000	31.03.2018	31.12.2017
Asset due to differed income tax	406,885	371,401
Provision due to differed income tax	231,213	195,497
Net asset due to differed income tax	**175,672**	**175,904**

Provisions and assets due to differed income tax are show in the consolidated statement of financial position after compensation.

13 Purchase and sale transactions of tangible assets

In the period 1 January – 31 March 2018 the value of purchased by the Group components of "fixed assets" equaled PLN 12,647 thousand (in 2017: PLN 92,288 thousand); the value of sold components equals PLN 0,0 thousand (in 2017: PLN 22,619 thousand).

As at 31 March 2018 the Group has no significant contract liabilities due to future purchase of tangible assets.

14 Default or breach due to received credit agreement in respect of which there were no corrective action until the end of the reporting period

Between 1 January and 31 March 2018 in the Group has been no occurrence of default or breach due to received credit agreement.

15 Seasonality or periodicity of business activity

The business activity of the Group is not significantly influenced by seasonal or cyclical factors.

16 Issue, redemption and repayment of debt and equity securities

In the 3 month period of 2018 no issue, pay back or repurchase of debt or equity securities had place.

17 Paid or declared dividends

Dividends declared

On March 21, 2018, the Supervisory Board of Bank Handlowy w Warszawie S.A. adopted a resolution and endorsed the submission of the motion of the Management Board on the distribution of net profit for 2017 to the Annual General Meeting of Shareholders, including the recommendation on a dividend payout in the amount of PLN 537,010,956.00, constituting 99.98% of the stand-alone net profit. The dividend will be paid in the form of cash. According to the above, the proposed dividend per one ordinary share would amount to PLN 4.11.

At the same time, the Supervisory Board considered and endorsed the motion of the Management Board concerning the dividend date to be June 18, 2018 and the date of dividend payout to be June 25, 2018.

The proposal of the Management Board along with the opinion of the Supervisory Board will be submitted to the Annual General Meeting of Shareholders for approval by resolution.

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

After 31 March 2018 there were no major events undisclosed in these financial statements, that could have a significant influence on the net result of the Group

19 Changes in granted financial and guarantee commitments

The detailed specification of granted financial and guarantee commitments as at 31 March 2018 and changes in comparison with the end of 2017 are as follows:

PLN '000	State as at		Change	
	31.03.2018	31.12.2017	PLN '000	%
Contingent liabilities granted				
financial	15,105,004	14,441,141	663,863	4.6%
Import letters of credit issued	215,908	148,607	67,301	45.3%
Credit lines granted	14,889,096	14,292,534	596,562	4.2%
guarantees	2,443,970	2,375,341	68,629	2.9%
Guarantees granted	2,381,897	2,312,023	69,874	3.0%
Export letters of credit confirmed	17,531	19,376	(1,845)	(9.5%)
Other	44,542	43,942	600	1.4%
	17,548,974	**16,816,482**	**732,492**	**4.4%**
Contingent liabilities received				
guarantees (guarantees received)	18,620,179	18,142,380	477,799	2.6%
	18,620,179	**18,142,380**	**477,799**	**2.6%**
Contingent transactions due to FX, securities and derivatives (granted/received liabilities)				
Current*	2,343,719	1,289,429	1,054,290	81.8%
Forward **	184,733,442	180,955,411	3,778,031	2.1%
	187,077,161	**182,244,840**	**4,832,321**	**2.7%**

**Foreign exchange and securities transactions with current value date*

*** Derivatives: FX, interest rate transactions and options*

20 Changes in Group's structure

In the first quarter of 2018 the structure of the Group has not changed as a result of merger, obtaining or losing control of subsidiaries, long-term investments, division, restructuring and discontinuation of activity.

21 Achievement of 2018 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2018.

22 Information about shareholders

As at the day of publishing the Interim Statement for the first quarter of 2018 the list of shareholders who held directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital is as follows:

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

In the period between publishing the interim financial statements for the third quarter of 2017, annual consolidated financial report for the year 2017 and publishing this report for the first quarter of 2018 the structure of major shareholdings has not undergone any changes.

23 Ownership of issuer's shares by members of the Management Board and Supervisory Board

According to the best knowledge of the Bank – the dominant entity, the number of Bank's shares held by members of Management and Supervisory Board is presented below:

Name and surname	Function	Number of shares on day of publishing the Interim Financial Statement for the first quarter 2018	Number of shares on day of publishing the Annual Consolidated Financial Report for the year 2017	Number of shares on day of publishing the Interim Financial Statement for the third quarter 2017
Andrzej Olechowski	Chairman of Supervisory Board	2,200	2,200	2,200
Total		**2,200**	**2,200**	**2,200**

Managing and supervising officers have not declared any options for Bank's shares.

24 Information on pending court proceedings

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

The total value of all legal proceedings regarding receivables, with the participation of the Bank and its subsidiaries, in the first quarter of 2018 did not exceed 10% of the Bank's equity.

The total value of all legal proceedings regarding liabilities, with the participation of the Bank and its subsidiaries, in the first quarter of 2018 did not exceed 10% of the Bank's equity.

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

In the case of legal proceedings involving the risk of cash outflow due to fulfillment of the obligation created by the Group are adequate reserves.

As at 31 March 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 (case against the Bank). The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank.

The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressees of the President of UOKiK's decision in the case. The proceedings have concerned alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was the subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set in the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. The verdict is binding and enforceable. Due to the Banks submitted extraordinary appeal on the 25 October 2017 the Supreme Court has overturned the Appeal Court's verdict and the case has been returned to the Appeal Court for a second review. The appeals proceedings has begun again. 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 quarter 2018.

25 Information about significant transactions with related entities dealt on other than market terms.

In the first quarter of 2018, the Bank and its subsidiaries entered into transactions with related entities. All transactions with related entities were dealt on market terms.

26 Information about guarantee agreements

At the end of the first quarter of 2018, the total value of sureties and guarantees given by the Bank or its subsidiaries to a single entity and its subsidiary did not exceed 10% of the Bank's shareholders' equity.

27 Factors and events which could affect future financial performance of the Bank's Capital Group

The pace of monetary policy tightening by the world's major central banks may have an impact on risk appetite in international markets and on capital flows. In the scenario of rapid interest rate hikes in the U.S. and rising profitability of the U.S. Treasury bonds, outflows of foreign capital from the emerging markets could be triggered. Additionally, rapid reduction in the ECB's assets purchase program could also have a negative impact on the demand for assets in the region. As a result, the domestic currency would weaken and interest on both Treasury and corporate debt would increase.

Intensification of the protectionist measures by the U.S. government may have an adverse impact on international trade volumes and global economic growth while potential reactions from the other major players in the global trade may additionally contribute to the scale of this phenomenon. An outbreak of a trade war would have an unfavourable impact on the demand for the Polish export products and could contribute to inflation growth.

For now, the process of the United Kingdom's exit from the European Union remains the main source of uncertainty that may affect volatility in financial markets as well as economic activity in the EU. One of the consequences of the United Kingdom's exit from the EU may be reducing the pool of EU funds available to Poland and other Central European countries in the next EU financial perspective. This risk could be exacerbated if governments of other European countries also start to ponder the decision to leave the European Union.

Any new intensification of global geopolitical tensions may also threaten the stability of financial markets and hinder the influx of foreign capital into Poland. Conflicts in Syria, Ukraine or Afghanistan flaring up, as well as further deterioration in the relations between the U.S. and North Korea and between the U.S. and Russia could result in risk aversion and weaken the Polish zloty, negatively affecting both foreign investment in Poland and global economic growth.

Uncertainty concerning changes in domestic economic policy, especially with respect to future changes to the tax system, may contribute to Polish corporations putting off new investment projects. Reduced scale of investments could have a negative impact on the potential of the Polish economy, reducing its growth rate over the next few years.

Uncertainty concerning changes in domestic economic policy and the legal environment may contribute to Polish corporations putting off new investment projects. In the longer term, this could have a negative impact on the potential of the Polish economy.

Interim condensed standalone financial statements of the Bank for the first quarter of 2018

Condensed income statement

PLN '000	For the period	First quarter accruals period from 01.01.18 to 31.03.18	First quarter accruals period from 01.01.17 to 31.03.17
Interest income		312,271	312,017
Similar income		15,425	n/a
Interest expense and similar charges		(51,120)	(58,414)
Net interest income		**276,576**	**253,603**
Fee and commission income		152,004	141,934
Fee and commission expense		(18,553)	(17,040)
Net fee and commission income		**133,451**	**124,894**
Dividend income		**58**	**-**
Net gain/(loss) on trading financial instruments and revaluation		**96,730**	**72,406**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income[b]		**36,701**	**4,986**
Net gain/(loss) on other equity instruments[c]		**476**	**292**
Net gain/(loss) on hedge accounting		**3,682**	**4,581**
Other operating income		17,608	8,377
Other operating expenses		(6,327)	(11,434)
Net other operating income		**11,281**	**(3,057)**
General administrative expenses		**(320,433)**	**(320,577)**
Depreciation and amortization		**(18,524)**	**(16,486)**
Profit on sale of other assets		**(254)**	**2**
Net impairment on financial assets[d]		**(5,540)**	**(29,670)**
Tax on certain financial institutions		**(18,998)**	**(19,593)**
Profit before tax		**195,206**	**71,381**
Income tax expense		**(50,369)**	**(31,751)**
Net profit		**144,837**	**39,630**
Weighted average number of ordinary shares (in pcs)		130,659,600	130,659,600
Earnings per share (in PLN)		1.11	0.30
Diluted net earnings per share (in PLN)		1.11	0.30

a. *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" and IFRS 15 "Revenues from contracts with customers" for the first time without restatement of comparative data for earlier periods.*

b. *Corresponds to the 'Net gain on debt investment securities available-for-sale' in accordance with IAS 39.*

c. *Corresponds to the 'Net gain on equity investment instruments available-for-sale' in accordance with IAS 39.*

d. *Corresponds to the 'Net impairment due to financial assets and provisions for granted financial liabilities and guarantees' in accordance with IAS 39.*

Condensed statement of comprehensive income

PLN '000	First quarter accruals period from 01.01.18 to 31.03.18	First quarter accruals period from 01.01.17 to 31.03.17
Net profit	**144,837**	**39,630**
Other comprehensive income, that might be subsequently reclassified to profit or loss		
Net value of financial assets measured at fair value through other comprehensive income[e]	86,840	31,982
Total comprehensive income	**231,677**	**71,612**

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

Condensed statement of financial position

PLN '000 State as at	31.03.2018	31.12.2017
ASSETS		
Cash and balances with the Central Bank	466,403	462,126
Amounts due from banks	1,221,494	836,166
Financial assets held-for-trading	4,094,033	2,162,040
Debt investment financial assets measured at fair value through other comprehensive income[f]	16,185,931	17,439,439
Other equity investments[g]	149,071	132,539
Amounts due from customers	20,114,043	19,766,803
Tangible fixed assets	340,415	375,673
Intangible assets	1,381,363	1,351,583
Deferred income tax asset	176,964	176,979
Other assets	171,309	158,688
Non-current assets held-for-sale	1,123	1,928
Total assets	**44,302,149**	**42,863,964**
LIABILITIES		
Amounts due to banks	3,221,186	1,568,261
Financial liabilities held-for-trading	1,669,419	1,351,031
Hedging derivatives	-	50,191
Amounts due to customers	31,410,351	32,172,441
Provisions	41,046	17,871
Current income tax liabilities	64,455	52,340
Other liabilities	864,977	777,211
Total liabilities	**37,271,434**	**35,989,346**
EQUITY		
Ordinary shares	522,638	522,638
Share premium	2,944,585	2,944,585
Revaluation reserve	76,668	(9,376)
Other reserves	2,879,669	2,879,669
Retained earnings	607,155	537,102
Total equity	**7,030,715**	**6,874,618**
Total liabilities and equity	**44,302,149**	**42,863,964**

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

Condensed statement of changes in equity

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2018	**522,638**	**2,944,585**	**(9,376)**	**2,879,669**	**537,102**	**6,874,618**
Impact of adopting IFRS 9	-	-	(796)	-	(74,784)	(75,580)
Restated balance as at 1 January 2018	522,638	2,944,585	(10,172)	2,879,669	462,318	6,799,038
Total comprehensive income, including:	-	-	86,840	-	144,837	231,677
Net profit	-	-	-	-	144,837	144,837
Net valuation of financial assets measured at fair value through other comprehensive income[h]	-	-	86,840	-	-	86,840
Balance as at 31 March 2018	**522,638**	**2,944,585**	**76,668**	**2,879,669**	**607,155**	**7,030,715**

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2017	**522,638**	**2,944,585**	**(215,061)**	**2,867,565**	**604,199**	**6,723,926**
Total comprehensive income, including:	-	-	31,982	-	39,630	71,612
Net profit	-	-	-	-	39,630	39,630
Net valuation of available-for-sale financial assets	-	-	31,982	-	-	31,982
Balance as at 31 March 2017	**522,638**	**2,944,585**	**(183,079)**	**2,867,565**	**643,829**	**6,795,538**

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

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

Condensed summary statement of cash flows

PLN '000	First quarter accruals period from 01.01.18 to 31.03.18	First quarter accruals period from 01.01.17 to 31.03.17
Cash at the beginning of the reporting period	**514,477**	**672,754**
Cash flows from operating activities	41,822	1,701,961
Cash flows from investing activities	(12,609)	(37,148)
Cash flows from financing activities	(25,445)	(48,730)
Cash at the end of the reporting period	**518,245**	**2,288,837**
Increase/(decrease) in net cash	**3,768**	**1,616,083**

Condensed additional information

1. Declaration of conformity

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

These interim condensed standalone financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the standalone financial statements of the Bank for the financial year ended 31 December 2017 and interim condensed consolidated financial statement of the Group for the first quarter 2018.

In accordance with 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 as of 2018, No. 757) the Bank is obliged to publish its financial results for the 3 month period ended 31 March 201 which is deemed to be the current interim financial reporting period.

2. Significant accounting policies

Interim condensed standalone financial statements of the Bank for the first quarter of 2018 have been prepared in accordance with the Decree by virtue of which the issuer, being a parent entity, is not obliged to provide interim separate financial statements, on condition that it includes in the interim consolidated financial statements consisting of balance sheet, profit and loss account, statement of changes in equity, cash flow statement and condensed supplementary notes, comprising of information and data significant for the assessment of the issuer's financial standing and its profit or loss, but not presented in the interim consolidated financial statement. In addition, it's required to prepare the interim condensed financial statements in accordance with accounting principles adopted in the preparation process of the annual financial statements.

Principles adopted in the preparation process of these interim condensed standalone financial statement are consistent with the principles, described in the annual standalone financial statements of the Bank for the financial year ended 31 December 2017 taking into account the changes described in the interim condensed consolidated financial statement of the Group for the first quarter 2018.

Other information and explanations concerning these interim condensed consolidated financial statements for the first quarter 2018 contain also all information and explanatory data essential for these interim condensed standalone financial statements.

The summary of Bank's financial results for the first quarter of 2018 is presented below.

Bank's financial results

For first quarter of 2018 the Bank has generated profit before tax of PLN 195 million, in comparison to PLN 71 million in the corresponding period of 2017, that is by 175.5% yoy more.

Net profit accruals (for January-March, 2018 period) was PLN 145 million in comparison to PLN 40 million of net profit in the corresponding period of 2017, what equals to growth by 265.5% yoy.

The significant impact on the Bank's net profit in the first quarter 2018 had increase of interest and fees result by PLN 32 million (or 8.3% yoy), significant increase of financial instruments result (trade financial instruments and revaluation, debt investment securities, equity investment instruments) by total of PLN 56 million (or 72.4% yoy), decrease of result on hedge accounting by PLN 1 million, increase in Bank's activity costs and general and administrative expenses and depreciation by total of PLN 2 million (or 0.6%), lower (net) impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities by PLN 24 million (or 81.3%), decrease of result on other operating income and expenses as well as result on sale of other assets by total of PLN 14 million and higher income tax expense by PLN 19 million (or 58.6%).

The interim condensed consolidated financial statements for the first quarter of 2018 will be available on the website of Bank Handlowy w Warszawie S.A. at **www.citihandlowy.pl**

Signature of the Vice-Director of
Financial Reporting, Control and Tax Department

Date and signature

10.05.2018

Signature of the Vice-President of
Management Board

Date and signature

10.05.2018