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2019 Semi-annual Report of the Capital Group of Bank Handlowy w Warszawie S.A.

August 2019

SELECTED FINANCIAL DATA	In PLN '000		In EUR '000***	
	First half of 2019	First half of 2018	First half of 2019	First half of 2018
	01.01. - 30.06. 2019	01.01. - 30.06. 2018	01.01. - 30.06. 2019	01.01. - 30.06. 2018
Condensed Interim Consolidated Financial Statements data				
Interest income	641,125	618,310	149,515	145,845
Fee and commission income	332,198	323,199	77,471	76,235
Profit before tax	273,186	427,063	63,709	100,734
Net profit	192,626	328,212	44,922	77,418
Comprehensive income	208,215	366,231	48,557	86,385
Changes in net cash	(6,927,749)	44,396	(1,615,601)	10,472
Total assets*	51,477,163	49,304,714	12,106,576	11,466,213
Amounts due to banks*	4,337,702	1,402,233	1,020,156	326,101
Amounts due to customers*	37,013,996	38,334,345	8,705,079	8,914,964
Equity*	6,776,298	7,056,750	1,593,673	1,641,105
Share capital *	522,638	522,638	122,916	121,544
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	51.86	54.01	12.20	12.56
Total capital ratio (in %)*	16.6	16.8	16.6	16.8
Earnings per share (PLN/EUR)	1.47	2.51	0.34	0.59
Diluted earnings per share (PLN/EUR)	1.47	2.51	0.34	0.59
Condensed Interim Stand-alone Financial Statements data				
Interest income	640,675	617,812	149,410	145,728
Fee and commission income	314,710	304,299	73,393	71,777
Profit before tax	271,802	440,891	63,386	103,996
Net profit	191,545	342,497	44,670	80,787
Comprehensive income	207,191	380,542	48,318	89,761
Changes in net cash	(6,927,660)	44,399	(1,615,580)	10,473
Total assets*	51,171,020	49,242,024	12,034,577	11,451,633
Amounts due to banks*	4,337,582	1,402,124	1,020,127	326,075
Amounts due to customers*	37,047,918	38,395,885	8,713,057	8,929,276
Equity*	6,725,576	7,007,052	1,581,744	1,629,547
Share capital *	522,638	522,638	122,916	121,544
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	51.47	53.63	12.11	12.47
Total capital ratio (in %)*	16.3	16.5	16.3	16.5
Earnings per share (PLN/EUR)	1.47	2.62	0.34	0.62
Diluted earnings per share (PLN/EUR)	1.47	2.62	0.34	0.62
Declared or paid dividends per share (PLN/EUR)**	3.74	4.11	0.87	0.94

**Comparative data according to balance sheet as at 31 December 2018. Additional information on TCR calculation in the supplementary note no 5 in the section "Capital Adequacy". Calculation of TCR as 30.06.2019 was not subject to a separate review or audit by an auditor.*

***The presented ratios relate respectively to dividend paid in 2019 from the distribution of 2018 profit and dividend paid in 2018 from the appropriation of the 2017 profit.*

****The following exchange rates were applied to convert PLN to EUR: for the statement of financial position items- average NBP exchange rate as at 30 June 2019 EUR 1 = PLN 4.2520 (as at 31 December 2018: PLN 4.3000; as at 30 June 2018: PLN 4.3616); for the income statement, the statement of comprehensive income and the cash flow statement items – the rate is calculated as the arithmetic mean of NBP exchange rates prevailing as at the last day of each month of the first half of 2019: EUR 1 = PLN 4.2880 (in the first half of 2018: PLN 4.2395).*

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CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. FOR THE 6 MONTH PERIOD ENDED 30 JUNE 2019

AUGUST 2019

CONTENTS

Condensed consolidated income statement

For a period		II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018
PLN '000	Note				
Interest income	6	324,851	641,125	305,753	618,310
Similar income	6	26,206	48,637	11,229	26,654
Interest expense and similar charges	6	(62,704)	(124,061)	(46,387)	(97,203)
Net interest income	**6**	**288,353**	**565,701**	**270,595**	**547 761**
Fee and commission income	7	176,467	332,198	159,684	323,199
Fee and commission expense	7	(23,185)	(45,052)	(20,869)	(42,787)
Net fee and commission income	**7**	**153,282**	**287,146**	**138,815**	**280,412**
Dividend income		**9,784**	**9,860**	**8,892**	**8,950**
Net income on trading financial instruments and revaluation	**8**	**96,460**	**187,642**	**95,187**	**192,743**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income		**24,852**	**54,147**	**42,492**	**79,193**
Net gain/(loss) on equity and other instruments measured at fair value through income statement		**7,277**	**13,199**	**6,316**	**6,792**
Net gain/(loss) on hedge accounting		**(346)**	**(758)**	**-**	**3,682**
Other operating income	9	6,290	13,182	6,171	22,770
Other operating expense	9	(7,434)	(14,510)	(7,512)	(13,871)
Net other operating income and expense	**9**	**(1,144)**	**(1,328)**	**(1,341)**	**8,899**
General administrative expenses	**10**	**(257,843)**	**(620,845)**	**(261,581)**	**(588,970)**
Depreciation and amortization		**(21,613)**	**(42,580)**	**(18,681)**	**(37,361)**
Profit on sale of other assets		**(32)**	**(31)**	**(604)**	**(836)**
Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments	**11**	**(106,484)**	**(134,762)**	**(26,992)**	**(32,524)**
Operating income		**192,546**	**317,391**	**253,098**	**468,741**
Share in net profits of entities valued at equity method*		**-**	**-**	**249**	**255**
Tax on some financial institutions		**(22,314)**	**(44,205)**	**(22,935)**	**(41,933)**
Profit before tax		**170,232**	**273,186**	**230,412**	**427,063**
Income tax expense	**12**	**(37,105)**	**(80,560)**	**(48,042)**	**(98,851)**
Net profit		**133,127**	**192,626**	**182,370**	**328,212**
Including:					
Net profit attributable to Bank's shareholders (in PLN)			192,626		328,212
Weighted average number of ordinary shares (in pcs)			130,659,600		130,659,600
Earnings per share (in PLN)			1.47		2.51
Diluted net earnings per share (in PLN)			1.47		2.51

** From 1 January 2019 Handlowy-Inwestycje Sp. z o.o. is fully consolidated.*

Explanatory notes on pages 11-49 are integral part of the condensed interim consolidated financial statements.

Financial data presented on quarterly basis for the period of 1 April 2019 to 30 June 2019 was not subject to a separate review or audit by an auditor.

Condensed consolidated statement of comprehensive income

For a period		II quarter	I half of the year	II quarter	I half of the year
		01.04. - 30.06. 2019	01.01. - 30.06. 2019	01.04. - 30.06. 2018	01.01. - 30.06. 2018
PLN '000	Note				
Net profit		**133,127**	**192,626**	**182,370**	**328,212**
Other comprehensive income, that might be subsequently reclassified to profit or loss					
Changes in value of financial assets measured at fair value through other comprehensive income	13	67,305	15,646	(49,021)	37,787
Currency translation differences		(58)	(57)	185	232
Other comprehensive income net of tax		**67,247**	**15,589**	**(48,836)**	**38,019**
Total comprehensive income		**200,374**	**208,215**	**133,534**	**366,231**
Including:					
Comprehensive income attributable to Bank's shareholders		200,374	208,215	133,534	366,231

Explanatory notes on pages 11-49 are integral part of the condensed interim consolidated financial statements.

Financial data presented on quarterly basis for the period of 1 April 2019 to 30 June 2019 was not subject to a separate review or audit by an auditor.

Condensed consolidated statement of financial position

PLN '000	As at Note	30.06.2019	31.12.2018
ASSETS			
Cash and balances with the Central Bank		376,742	7,272,193
Amounts due from banks	14	960,585	1,333,977
Financial assets held-for-trading	15	5,672,463	2,237,076
Hedging derivatives		474	-
Debt financial assets measured at fair value through other comprehensive income	16	19,836,965	14,241,363
Equity investments valued at equity method*		-	10,399
Equity and other instruments measured at fair value through income statement		58,444	48,768
Amounts due from customers	17	22,111,273	21,949,014
Tangible fixed assets		500,391	364,261
Intangible assets		1,411,431	1,418,794
Current income tax receivables		1,423	1,744
Deferred tax asset	18	249,266	204,207
Other assets	19	297,706	222,918
Total assets		**51,477,163**	**49,304,714**
LIABILITIES			
Amounts due to banks	20	4,337,702	1,402,233
Financial liabilities held-for-trading	15	1,739,793	1,609,382
Hedging derivatives		4,064	-
Amounts due to customers	21	37,013,996	38,334,345
Provisions		32,702	29,984
Current income tax liabilities		47,788	66,297
Other liabilities	22	1,524,820	805,723
Total liabilities		**44,700,865**	**42,247,964**
EQUITY			
Ordinary shares		522,638	522,638
Share premium		3,003,290	3,003,290
Revaluation reserve		100,018	84,372
Other reserves		2,871,374	2,883,838
Retained earnings		278,978	562,612
Total equity		**6,776,298**	**7,056,750**
Total liabilities and equity		**51,477,163**	**49,304,714**

** From 1 January 2019 Handlowy-Inwestycje Sp. z o.o. is fully consolidated.*

Explanatory notes on pages 11-49 are integral part of the condensed interim consolidated financial statements.

Condensed consolidated statement of changes in equity

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2019	**522,638**	**3,003,290**	**84,372**	**2,883,838**	**562,612**	**7,056,750**
Total comprehensive income, including:	-	-	15,646	(57)	192,626	208,215
Net profit	-	-	-	-	192,626	192,626
Currency translation differences from the foreign operations' conversion	-	-	-	(57)	-	(57)
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	15,646	-	-	15,646
Dividends paid	-	-	-	-	(488,667)	(488,667)
Transfer to capital	-	-	-	(12,407)	12,407	-
Balance as at 30 June 2019	**522,638**	**3,003,290**	**100,018**	**2,871,374**	**278,978**	**6,776,298**

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

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

Explanatory notes on pages 11-49 are integral part of the condensed interim consolidated financial statements.

Condensed consolidated statement of cash flows

PLN '000 For a period	01.01. - 30.06. 2019	01.01. - 30.06. 2018
A. Operating activities		
I. Net profit	**192,626**	**328,212**
II. Adjustments:	**(7,067,124)**	**(210,156)**
Current and deferred income tax recognized in income statement	80,560	98,851
Share in net profits/(losses) of entities valued at equity method	-	(255)
Depreciation expense	42,580	37,361
Net impairment due to financial assets value loss	132,909	35,045
Net provisions (recoveries)	2,109	(2,966)
Net interest income	(565,701)	(547,761)
Dividend income	(9,860)	(8,950)
Profit/loss on sale of fixed assets	31	838
Net unrealized exchange differences	1,135	(6,094)
Equity and other investment measured at fair value though the income statement	(13,155)	(6,792)
Other adjustments	(4,964)	1,003
Change in amounts due from banks	341,731	(128,431)
Change in amounts due from customers	(252,724)	(1,350,058)
Change in debt securities measured at fair value through other comprehensive income	(5,667,397)	1,711,373
Change in financial assets held-for-trading	(3,397,432)	(1,326,901)
Change in derivative securities	(474)	-
Change in other assets	(63,937)	(50,383)
Change in amounts due to banks	2,936,688	523,860
Change in amounts due to customers	(1,313,059)	361,846
Change in liabilities held-for-trading	130,411	265,307
Change in amounts due to hedging derivatives	4,064	(50,191)
Change in other liabilities	549,361	233,142
Interest received	**718,667**	**732,749**
Interest paid	**(119,748)**	**(95,892)**
Income tax paid	**(147,191)**	**(124,176)**
III. Net cash flows from operating activities	**(6,422,770)**	**630,737**
B. Investing activities		
Inflows		
Disposal of tangible fixed assets	17	22
Disposal of capital shares	20,640	-
Disposal of fixed assets/liabilities held-for-sale	-	1,068
Received dividends	288	773
Outflows		
Purchase of tangible fixed assets	(10,308)	(29,431)
Purchase of intangible assets	(15,080)	(3,370)
Purchase of capital shares	(41)	-
Net cash flows from investing activities	**(4,484)**	**(30,938)**
C. Financing activities		
Outflows		
Paid dividends	(488,667)	(537,011)
Repayment of long-term loans from financial sector	(1,673)	(25,445)
Outflows from lease payments	(8,340)	-
Net cash flows from financing activities	**(498,680)**	**(562,456)**
D. Exchange rates differences resulting from cash and cash equivalent calculation	**(1,815)**	**7,053**
E. Net increase/(decrease) in cash and cash equivalent	**(6,927,749)**	**44,396**
F. Cash and cash equivalent at the beginning of reporting period	**7,474,978**	**514,585**
G. Cash and cash equivalent at the end of reporting period (see note 28)	**547,229**	**558,981**

Explanatory notes on pages 11-49 are integral part of the condensed interim consolidated financial statements.

Supplementary notes to the condensed interim consolidated financial statements

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

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

The Bank and its subsidiaries are expected to continue the business activity in the foreseeable future.

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

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

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

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 subsidiaries:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		30.06.2019	31.12.2018
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A. („DMBH")	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. in liquidation	Warsaw	100.00	100.00
Bimmer Sp. z o.o	Warsaw	-	-
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	-
Entities valued at equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	-	100.00

Changes in the Group's structure were described in the supplementary note no 31.

2. Declaration of conformity

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

The financial statements does 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 2018.

In accordance with the Decree of the Ministry of Finance dated 29 March 2018, regarding current and periodic information provided by issuers of securities, and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2018, No. 757, as amended) the Bank is obliged to publish its financial results for the six-month period ended 30 June 2019 which is deemed to be the current interim financial reporting period.

These condensed consolidated interim financial statements were approved by the Management Board on 21 August 2019.

3. Significant accounting policies

The interim condensed consolidated financial statements of the Group for the first half of 2019 has been prepared in accordance with accounting principles adopted and described in the annual consolidated financial statements of the Group for the financial year ended 31 December 2018, except for accounting principles amendments effective from 1 January 2019 described further resulting from implementation of IFRS 16 "Leases".

The interim condensed consolidated income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows of the Group have been prepared for the period from 1 January 2019 to 30 June 2019 and for the consolidated statement of financial position as at 30 June 2019. Comparative financial data are presented for the period from 1 January 2018 to 30 June 2018 and for the consolidated statement of financial position as at 31 December 2018.

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

The preparation of interim condensed consolidated financial statements of the Group with accordance to International Financial Reporting Standards requires that the Management should make certain estimates and adopt related assumptions that affect the amounts reported in the financial statements. The financial statements are 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 2018, including the reasons and sources of uncertainty as at the balance sheet date, including changes due to IFRS 16.

The estimations and respective assumptions are made based on historical data available and multiple other factors which under given conditions are considered proper and which form the basis for estimation regarding balance sheet values of assets and liabilities whose value cannot be determined clearly based on other sources. Real values may differ from estimation values.

The estimations and respective assumptions are subject recurring to reviews. Changes of estimations are recognized in the period in which the estimation was modified if the adjustment concerns only this period or in the period of the change and future periods if the adjustment concerns both this period and the future periods.

The most significant estimates made for the six months period ended 30 June 2019, concern:

- impairment of financial assets,
- measurement of the fair value of derivatives,
- employee benefits.

Standards and interpretations awaiting European Union's approval:

- 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,
- Changes in the Conceptual Framework introducing comprehensive clarifications in respect of financial reporting, among others regulating the area of measurement and its basis, presentation and disclosures, derecognition of assets and liabilities from balance sheet, and update and explanations of certain definitions,
- IFRS 3 'Business combinations' amendment - introducing a clarification of the definition of a project that helps to distinguish between acquisitions as a group of assets or a project,
- IAS 1 and IAS 8 amendments – changing definition of materiality.

will not have significant impact on the financial statements.

Standards and interpretations applicable from 1 January 2019:

- IFRS 16 "Leases". Described further.
- 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 does not have a significant impact on the financial statements,
- IAS 28 amendment regarding measurement of the long-term share in affiliate companies and joined ventures - the amendment does not have a significant impact on the financial statements,
- 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 - the amendment does not have a significant impact on the financial statements,
- 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 - the amendment does not have a significant impact on the financial statements,
- standard amendments cycle 2015-2017 including: IFRS 3 'Business combinations' and IFRS 11 'Joint Arrangements' in respect of measurement of interest in case of taking control over joint arrangements, IAS 12 in respect of recognition of tax on dividends in profit and loss, IAS 23 'Borrowing costs' for borrowing costs treatment – the amendments do not have a significant impact on the financial statements.

IFRS 16 Leases

On 1 January 2019 the Group adopted IFRS 16 "Leases" ("IFRS 16") replacing IAS 17 "Leases".

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

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

At commencement of each lease IFRS 16 requires a lessee to recognize a lease liability (resulting from an obligation to make lease payments) and an asset - right of use of a specified asset over a lease term. A lessee may elect not to apply the requirement to:

- short-term leases that at the commencement date, have a lease term of 12 months or less; and
- leases for which the underlying asset is of low value.

Implementation of IFRS 16 has not changed the classification and measurement of lease contracts where the Group is a lessor.

At the commencement date, the Group as a lessee measures the lease liability at the present value of the lease payments that are not paid at that date. The payments include*, inter alia*:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate.

At the commencement date, right-of-use assets are measured at cost, comprising:

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

The Group recognizes a lease contract as a right-of-use asset and corresponding lease liability at lease commencement date.

The majority of real estate leases are denominated in foreign currency and the corresponding lease liabilities are monetary items re-measured at each reporting date with revaluation gains and losses recognized in the income statement.

The Group presents right-of-use assets within Tangible fixed assets and it includes lease liabilities in Other liabilities line.

Interest expense resulting from a lease liability is recognized in profit and loss during lease using effective interest method, in order to produce a constant periodic rate of interest on the remaining balance of the lease liability.

A right-of-use asset is amortized on linear basis until earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group applies a short-term exemption to leases with undefined term and short termination periods for which no leasehold improvement was created and there are no significant termination penalties. Low-value exemption on the other hand is used with respect to e.g. office equipment.

The Group elected to apply the following practical expedients:

- the Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment),
- the Group applies an exemption for short-term leases for which the lease term ends within 12 months of the date of initial application,
- the Group elected not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component,
- the Group used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease,

- for operating lease contracts for which the underlying asset is of low value, the Group did not recognize any lease liabilities or related right-of-use assets. Lease payments on this account are recognized as expenses during the leasing period.

Initial application of IFRS 16

In accordance with the transitional provisions included in IFRS 16, when adopting the new standard, the Group as a lessee opted to follow a simplified approach based on which comparative information is not restated and cumulative effect is recognized as an adjustment to the opening balance of retained earnings (however no retained earnings adjustment was recognized because right-of-use asset balance was equal to lease liabilities).

As at initial application of IFRS 16, i.e. 1 January 2019, the Group recognized new assets, mainly related to right-of-use of real estate linked to the Bank's branches as well as perpetual usufruct of land. IFRS 16 initial application resulted in an increase in Group's assets and liabilities by PLN 146.0 million (equivalent of 0.3% of the Group's total assets as at 31 December 2018).

The impact of IFRS 16 first time adoption as at 1 January 2019 is presented below:

in PLN thousand	31 December 2018	IFRS 16 impact	1 January 2019
Tangible fixed assets	364,261	145,964	510,225
Total assets	**364,261**	**145,964**	**510,225**
Other liabilities	805,723	145,964	951,687
Total liabilities	**805,723**	**145,964**	**951,687**

The following table presents the reconciliation between operating lease commitments disclosed applying IAS 17 as at 31 December 2018 and lease liabilities recognized in the statement of financial position at the date of IFRS 16 initial application.

Reconciliation of Lease Liabilities

in PLN thousand	Rights to perpetual usufruct	Real estate and other	Total
Weighted-average Incremental Borrowing Rate	4.3%	1.4%	3,8%
Total non-cancellable operating lease rentals disclosed as at 31 December 2018 in accordance with IAS 17	**-**	**58,719**	**58,719**
Inclusion of Rights to perpetual usufruct and lease term change options	268,695	9,116	277,811
Total Undiscounted Lease Liability	**268,695**	**67,835**	**336,530**
Imputed Interest	186,507	4,059	190,566
Total Discounted Lease Liability as at 1 January 2019	**82,188**	**63,776**	**145,964**

The Group applies its incremental borrowing rates because interest rates implicit in leases are not readily determined. Incremental borrowing rates are determined by the Group taking into account risk-free rate, credit risk spread of the Group and they reflect lease term as well as a currency of a lease contract.

The following rates were applied as at 1 January 2019:

- PLN: 1.6% - 4.3% depending on remaining lease term;
- EUR: 0.02% - 2.2% depending on remaining lease term.

The Group updates the rate curves on recurring basis and applies new rates to new leases (and with respect to certain modified leases).

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

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 condensed interim consolidated statement of financial position.

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

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

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

PLN		30 June 2019	31 December 2018	30 June 2018
1	USD	3.7336	3.7597	3.7440
1	CHF	3.8322	3.8166	3.7702
1	EUR	4.2520	4.3000	4.3616

4. Segment reporting

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

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

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

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

Institutional Banking

Within the Institutional Banking segment, the Group offers products and provides services to commercial entities, municipalities and public sector. The offer in the Institutional Banking segment includes among others:

- Banking services covering credit and deposit activities,
- Cash management,
- Trade finance,
- Leasing,
- Custody services,
- Treasury products on financial and commodity markets,
- Investment banking services on the local and international capital markets, including advisory services as well as obtaining and underwriting financing through public and non-public offerings.

The activities also comprise proprietary transactions in the equity, debt and derivative instruments' markets.

Consumer Banking

Within the Consumer Banking segment, the Group provides products and financial services to individual clients, micro enterprises and individual entrepreneurs that are within the framework of Citibusiness offer. The whole range of banking products in Consumer Banking segment includes:

- Bank accounts and providing extensive credit and deposit products,
- Cash loans,
- Mortgage loans,
- Credit cards,
- Asset management services,
- Acting as an agent in investment and insurance products sale.

Consolidated income statement by business segment

For the period	01.01 – 30.06.2019			01.01 – 30.06.2018		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Net interest income	248,955	316,746	565,701	251,723	296,038	547,761
Internal interest income, including:	(33,338)	33,338	-	(17,305)	17,305	-
Internal income	-	33,338	33,338	-	17,305	17,305
Internal expenses	(33,338)	-	(33,338)	(17,305)	-	(17,305)
Net fee and commission income	148,827	138,319	287,146	144,988	135,424	280,412
Dividend income	1,262	8,598	9,860	1,032	7,918	8,950
Net income on financial instruments and revaluation	174,103	13,539	187,642	178,677	14,066	192,743
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	54,147	-	54,147	79,193	-	79,193
Net gain/(loss) on equity and other instruments measured at fair value through income statement	12,274	925	13,199	6,792	-	6,792
Net gain/(loss) on hedge accounting	(758)	-	(758)	3,682	-	3,682
Net other operating income	5,812	(7,140)	(1,328)	5,016	3,883	8,899
General administrative expenses	(310,942)	(309,903)	(620,845)	(270,941)	(318,029)	(588,970)
Depreciation and amortization	(9,944)	(32,636)	(42,580)	(9,180)	(28,181)	(37,361)
Profit on sale of other assets	1	(32)	(31)	(836)	-	(836)
Net impairment loss on financial assets and provisions for off-balance sheet commitments	(81,995)	(52,767)	(134,762)	(7,254)	(25,270)	(32,524)
Operating income	**241,742**	**75,649**	**317,391**	**382,892**	**85,849**	**468,741**
Share in net profits/(losses) of entities valued at equity method	-	-	-	255	-	255
Tax on some financial institutions	(32,264)	(11,941)	(44,205)	(30,925)	(11,008)	(41,933)
Profit before tax	**209,478**	**63,708**	**273,186**	**352,222**	**74,841**	**427,063**
Income tax expense			(80,560)			(98,851)
Net profit			**192,626**			**328,212**

As at:	30.06.2019			31.12.2018		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Total assets	**43,882,223**	**7,594,940**	**51,477,163**	**41,778,812**	**7,525,902**	**49,304,714**
Total liabilities and shareholders' equity, including:	**36,473,069**	**15,004,094**	**51,477,163**	**34,822,272**	**14,482,442**	**49,304,714**
Liabilities	31,200,407	13,500,458	44,700,865	29,342,859	12,905,105	42,247,964

5. Risk Management

Credit Risk

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

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

The Group monitors the concentration of credit exposures on an ongoing basis, trying to avoid a situation where the portfolio depends on a small number of clients. In the first half of 2019, the Group's credit exposure to non-bank entities did not exceed the limit of concentration required by law.

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

Concentration of exposures – non-bank clients*

PLN '000	30 Jun 2019			31 Dec 2018		
	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure	Balance sheet exposure**	Exposure due to granted financial commitments and guarantees	Total exposure
CLIENT 1	84,780	878,284	963,064	310,423	628,977	939,400
GROUP 2***	642,185	206,519	848,704	799,072	202,774	1,001,846
GROUP 3	583,774	244,400	828,174	369,570	253,148	622,718
CLIENT 4	227,300	522,700	750,000	263,100	486,900	750,000
GROUP 5	538,540	165,806	704,346	537,517	180,813	718,330
GROUP 6	95,879	597,716	693,595	332,064	472,010	804,074
CLIENT 7	662,795	-	662,795	1,000,000	-	1,000,000
CLIENT 8	396,009	210,646	606,655	523,638	81,562	605,200
GROUP 9	454,978	145,405	600,383	116,063	449,424	565,487
CLIENT 10	591,998	-	591,998	556,637	-	556,637
Total	**4,278,238**	**2,971,476**	**7,249,714**	**4,808,084**	**2,755,608**	**7,563,692**

* *As at 30.06.19; data from 31.12.18 is comparative and does not illustrate concentration of exposures as at 31.12.18.*
** *Excludes exposures due to shares and other securities.*
*** *The group is understood as a capital group composed of entities in relation to which the Group has involvement.*

Concentration of exposure to industries*

Industry according to PKD	30 Jun 2019		31 Dec 2018	
	PLN'000	%	PLN'000	%
Wholesale trade, except of motor vehicles	4,640,248	17.02%	4,695,370	17.48%
Financial service activities, excluding insurance and pension funds	2,573,329	9.44%	3,385,386	12.61%
Production and supply of electricity, gas, steam, hot water and air for air conditioning systems	2,490,455	9.14%	2,760,531	10.28%
Production of food products	1,235,719	4.53%	1,028,293	3.83%
Manufacture of fabricated metal products, except machinery and equipment	1,138,376	4.18%	1,084,312	4.04%
Retail trade, except of motor vehicles	1,115,950	4.09%	1,065,354	3.97%
Mining of metal ores	1,009,760	3.70%	929,839	3.46%
Production and processing of coke and refined petroleum products	963,064	3.53%	939,402	3.50%
Manufacture of motor vehicles, trailers, semi-trailers, excluding motorcycles	912,325	3.35%	673,491	2.51%
Activities of head offices; consulting related to the management	859,800	3.15%	893,827	3.33%
„10" industries total	**16,939,026**	**62.14%**	**17,455,805**	**65.00%**
Other industries	**10,320,392**	**37.86%**	**9,398,855**	**35.00%**
Total	**27,259,418**	**100.00%**	**26,854,660**	**100.00%**

**Gross balance sheet and off-balance-sheet exposure to institutional customers (including banks as of the day 30.06.19; data from 31.12.19 is comparative and does not illustrate concentration of exposures as at 31.12.18.*

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

The Group does not identify separate classes of financial instruments with low credit risk.

The Group creates provisions for expected credit losses, for all financial assets, according to developed internal rules and methodologies. Expected credit losses as per IFRS 9 are estimated based on exposure classification into one of the three Stages:

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

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

The Group aggregates financial instruments for the purpose of measurement of expected credit losses on product level in consumer banking and on segment level for homogenous micro-entrepreneurships portfolio with minimal shareholding in the sum of gross receivables of the Group.

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

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

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

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

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

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

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

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

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

Provisions for expected credit losses are calculated on the basis of statistical models for groups of assets combined in portfolios with common credit risk features. In the financial statements, the Group adjusts the value of credit exposures by provision for expected credit losses.

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

- The rate of impairment is derived from the client's rating determined based on internal rating models. The ECL methodology describes the process of applying existing migration ratings, expected in a given macroeconomic scenario, to migration schedules. In this way, in the following forecast periods, the probability of migration to a given rating range is obtained.
- The value of the LGD parameter results directly from the dedicated model for impaired clients.

- The exposure value for subsequent forecast periods is based on available repayment schedules as well as (for renewable products) on the expected change in exposure described by the value of the CCF parameter. The basis for estimating this parameter was internal data on amounts used by customers before the Group identified impairment of value.
- The assignment to the stage is based on the customer assessment process used in the Group to manage the client. This process includes both quantitative factors (e.g. customer rating) and a number of qualitative factors (e.g. Early Warning Signals).
- The maturity dates adopted by the Group result directly from agreements with customers and periods in which the Group is exposed to possible risks.

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

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

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

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

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

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

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

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

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

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

The Group takes into account macroeconomic information about the future in determining the expected credit losses. Scenarios are prepared by the Chief Economist of the Group min. once a quarter in the three years horizon in division into quarters (based scenario with 60% weight and positive and negative variation from scenario with 20% weight).

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

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

Scenarios and macroeconomic variables are updated on a quarterly basis.

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

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

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

PLN '000	Note	**30.06.2019**	**31.12.2018**
Gross receivables due from the Central Bank		376,742	6,850,129
Gross receivables due from banks	14	964,257	1,337,887
Gross receivables due from institutional customers*	17	15,228,936	15,080,556
Gross receivables due from individual customers*	17	7,675,171	7,535,018
Debt securities held-for-trading	15	4,162,514	931,172
Derivative instruments	15	1,442,437	1,282,677
Debt investment financial assets measured at fair value though other comprehensive income	16	19,836,965	14,241,363
Other financial assets	19	212,238	160,823
Contingent liabilities granted	32	17,659,922	16,797,326

PLN '000	Note	30.06.2019	31.12.2018
		67,559,182	64,216,951

** As at June 30, 2019, the value of collateral diminishing the maximum exposure to credit risk for receivables from institutional clients amounted to PLN 3,216,765 thousand (31 December 2018: PLN 2,708,768 thousand).*
** As at June 30, 2019, the value of collateral to reduce the maximum exposure to credit risk for receivables from individual clients amounted to PLN 1,782,809 thousand. (31 December 2018: PLN 1,676,541 thousand).*

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

The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 30 June 2019:

PLN '000	30.06.2019		
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks
Impaired receivables (Stage 3)			
Gross amount	**564,720**	**431,674**	**-**
Provision for expected for credit losses	(319,118)	(338,145)	-
Net amount	**245,602**	**93,529**	**-**
Not impaired receivables (Stage 2)			
By risk rating			
Risk rating 1-4-	141,624	-	3
Risk rating +5-6-	642,180	-	-
Risk rating +7 and greater	90,768	-	-
By delinquency			
No delinquency	-	702,352	-
1-30 days	-	124,604	-
31-90 days	-	48,662	-
Gross amount	**874,572**	**875,618**	**3**
Provision for expected for credit losses	(11,656)	(69,145)	-
Net amount	**862,916**	**806,473**	**3**
Not impaired receivables (Stage 1)			
By risk rating			
Risk rating 1-4-	11,244,474	-	446,929
Risk rating +5-6-	2,545,171	-	517,325
By delinquency			
No delinquency	-	6,161,475	-
1-30 days	-	206,404	-
31-90 days	-	-	-
Gross amount	**13,789,645**	**6,367,879**	**964,254**
Provision for expected for credit losses	(30,257)	(24,514)	(3,672)
Net amount	**13,759,388**	**6,343,365**	**960,582**
Total gross value	**15,228,936**	**7,675,171**	**964,257**
Provision for expected for credit losses	(361,030)	(431,804)	(3,672)
Total net value	**14,867,906**	**7,243,367**	**960,585**

As at June 30, 2019, the Group did not identify POCI assets (purchased or originated credit-impaired assets).

The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 31 December 2018:

PLN '000	31.12.2018		
	Receivables from institutional customers	**Receivables from individual customers**	**Receivables from banks**
Impaired receivables (Stage 3)			
Gross amount	**348,039**	**378,450**	**-**
Provision for expected for credit losses	(244,189)	(291,485)	-
Net amount	**103,850**	**86,965**	**-**
Not impaired receivables (Stage 2)			
By risk rating			
Risk rating 1-4-	56,158	-	2
Risk rating +5-6-	632,681	-	-
Risk rating +7 and greater	143,279	-	-
By delinquency			
No delinquency	-	657,366	-
1-30 days	-	105,640	-
31-90 days	-	46,976	-
Gross amount	**832,118**	**809,982**	**2**
Provision for expected for credit losses	(16,387)	(58,389)	-
Net amount	**815,731**	**751,593**	**2**
Not impaired receivables (Stage 1)			
By risk rating			
Risk rating 1-4-	11,576,050	-	822,928
Risk rating +5-6-	2,324,349	-	514,957
By delinquency			
No delinquency	-	6,140,959	-
1-30 days	-	205,627	-
31-90 days	-	-	-
Gross amount	**13,900,399**	**6,346,586**	**1,337,885**
Provision for expected for credit losses	(28,882)	(27,228)	(3,910)
Net amount	**13,871,517**	**6,319,358**	**1,333,975**
Total gross value	**15,080,556**	**7,535,018**	**1,337,887**
Provision for expected for credit losses	(289,458)	(377,102)	(3,910)
Total net value	**14,791,098**	**7,157,916**	**1,333,977**

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

In accordance with Transition Resource Group for Impairment of Financial Instruments the value of receivables in Stage 3 should be presented increased by accrued contract interest in total amount of PLN 423,549 thousand as at 30 June 2019 (as 2018 year end PLN 411,529 thousand). The result of this presentation of receivables is also the growth of provisions by the same amount. This change has no influence on total net value of receivables in Stage 3. Note 17 presents' quantitative data illustrating this effect.

Structure of derivatives in terms of credit risk:

PLN '000	30.06.2019			31.12.2018		
	Transactions with institutional customers	**Transactions with individual customers**	**Transactions with banks**	**Transactions with institutional customers**	**Transactions with individual customers**	**Transactions with banks**
Derivatives by risk rating						
Risk rating 1-4-	738,549	7,712	624,325	579,490	5,006	676,910
Risk rating+5-6-	56,349	3	21,642	7,178	-	14,088

PLN '000	30.06.2019			31.12.2018		
	Transactions with institutional customers	Transactions with individual customers	Transactions with banks	Transactions with institutional customers	Transactions with individual customers	Transactions with banks
Risk rating +7 and greater	6	-	-	5	-	-
Total	**794,904**	**7,715**	**645,967**	**586,673**	**5,006**	**690,998**

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

PLN '000	30.06.2019		31.12.2018	
	Debt securities held-for-trading	Debt securities at fair value though other comprehensive income	Debt securities held-for-trading	Debt securities at fair value though other comprehensive income
Issuer rating by Fitch agency				
A (including: from A- to AAA)	4,162,514	19,836,965	931,172	14,241,363
Total	**4,162,514**	**19,836,965**	**931,172**	**14,241,363**

Structure of the granted contingent liabilities from the credit risk point of view as at June 30, 2019:

PLN '000	30.06.2019		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Granted contingent liabilities by risk rating			
Risk rating 1-4-	9,358,997	-	363,034
Risk rating+5-6-	1,690,255	-	6,799
Risk rating +7and greater	150,632	-	-
Total	**11,199,884**	**6,090,205**	**369,833**

Structure of the granted contingent liabilities from the credit risk point of view as at December 31, 2018:

PLN '000	30.12.2018		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Granted contingent liabilities by risk rating			
Risk rating 1-4-	8,442,520	-	449,124
Risk rating+5-6-	1,960,293	-	6,799
Risk rating +7and greater	43,065	-	-
Total	**10,445,878**	**5,895,525**	**455,923**

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

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

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

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

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

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

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

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

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

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

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

Exposure values in the "forborne" status as at June 30, 2019:

PLN ‘000	As of	
	30.06.2019	31.12.2018
Receivables without recognized impairment	21,907,743	21,889,085
Receivables without recognized impairment (Stage 1), including	20,157,554	20,246,985
non-financial sector entities	18,072,298	18,098,779
Institutional customers	11,704,419	11,752,193
Individual customers	6,367,879	6,346,586
Receivables without recognized impairment (Stage 2), including:	1,750,189	1,642,100
non-financial sector entities	1,750,182	1,642,100
Institutional customers	874,564	832,118
Individual customers	875,618	809,982
Receivables with recognized impairment (Stage 3), including:	996,364	726,489
non-financial sector entities	996,364	726,489
Institutional customers, including:	564,690	348,039
„forborne”	179,692	78,281
Individual customers, including:	431,674	378,450
„forborne”	21,955	19,791
Total gross amount, including:	**22,904,107**	**22,615,574**
non-financial sector entities	20,818,844	20,467,368
Institutional customers, including:	13,143,673	12,932,350
„forborne”	179,692	78,281
Individual customers, including:	7,675,171	7,535,018
„forborne”	21,955	19,791
Provision for expected credit losses	**(792,834)**	**(666,560)**
On „forborne” receivables	(67,580)	(59,555)
Total net amounts due from customers, including:	**22,111,273**	**21,949,014**
„forborne” receivables	134,067	38,517

Liquidity Risk

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

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

In the first half of 2019 the Group has not implemented any changes in liquidity risk management processes, procedures, systems and policies.

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

	30.06.2019	31.12.2018	Change
M1 - Short-term liquidity gap (PLN)	8,740,583	6,517,776	2,222,807
M2 - Short-term liquidity ratio	1.28	1.18	0.10
M3 - Coverage of illiquid assets with regulatory capital	5.06	6.08	(1.02)
M4 - Coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	1.50	1.44	0.06
LCR	133%	168%	35pp

The level of modified cash flow gap and the level of liquid assets as at 30 June 2019 and 31 December 2018 are shown below.

The cumulated liquidity gap as at 30 June 2019 in real terms:

PLN '000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	22,945,083	410,410	554,983	229,932	27,336,755
Liabilities	12,041,568	4,990,606	19,634	-	34,425,355
Balance-sheet gap in the period	**10,903,515**	**(4,580,196)**	**535,349**	**229,932**	**(7,088,600)**
Conditional derivative transactions – inflows	16,688,224	5,665,705	10,199,495	8,124,523	17,454,510
Conditional derivative transactions – outflows	16,791,194	5,733,765	10,250,323	8,159,333	17,424,213
Off-balance-sheet gap in the period	**(102,970)**	**(68,060)**	**(50,828)**	**(34,810)**	**30,297**
Potential utilization of credit lines granted	610,615	801,624	505,522	-	(1,917,761)
Cumulative gap	**10,189,930**	**4,740,050**	**4,719,049**	**4,914,171**	**(226,371)**

The cumulated liquidity gap as at 31 December 2018 in real terms:

PLN '000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	21,150,966	424,855	928,484	-	26,800,409
Liabilities	9,027,056	4,859,475	20,028	-	35,398,155
Balance sheet gap in the period	**12,123,910**	**(4,434,620)**	**908,456**	**-**	**(8,597,746)**
Conditional derivative transactions – inflows	22,005,560	9,318,244	10,587,062	7,196,021	17,354,183
Conditional derivative transactions – outflows	21,989,606	9,329,708	10,812,157	7,219,383	17,308,085
Off-balance-sheet gap in the period	**15,954**	**(11,464)**	**(225,095)**	**(23,362)**	**46,098**
Potential utilization of credit lines granted	693,802	861,242	591,621	-	(2,146,665)
Cumulative gap	**11,446,062**	**6,138,736**	**6,230,476**	**6,207,114**	**(197,869)**

Liquid assets and cumulated liquidity gap up to 1 year:

PLN '000	30.06.2019	31.12.2018	Change
Liquid assets, including:	24,216,000	22,229,407	1,986,593
nostro account in NBP and stable part of cash	216,520	7,056,872	(6,840,352)
debt securities held-for-trading	4,162,515	931,172	3,231,343
debt financial assets measured at fair value through other comprehensive income*	19,836,965	14,241,363	5,595,602
Cumulative liquidity gap up to 1 year	4,719,049	6,230,476	(1,511,427)
Coverage of the gap with liquid assets	Positive gap	Positive gap	

Market risk

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

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

In the first half of 2019 the Group has not made any changes in market risk management processes, procedures, systems and policies.

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

The following risk measures are applied to bank portfolios:

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

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

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

It is assumed that:

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

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

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

Group's IRE measures as at 30 June 2019 and 31 December 2018 are presented below. The list is shown in the main currencies, i.e. PLN, USD and EUR which jointly account to over 90% of Group's balance sheet.

PLN '000	30.06.2019		31.12.2018	
	IRE 12M	**IRE 5L**	**IRE 12M**	**IRE 5L**
PLN	20,754	75,704	10,444	87,021
USD	14,088	23,210	16,798	31,102
EUR	2,384	(1,966)	(3,103)	1,973

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

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

Within the implementation of EBA guidelines, the Bank has expanded the range of used scenarios for stress tests, implementing six new supervisory scenarios identified in mentioned guidelines.

Activities relating to securities at fair value through other comprehensive income are the responsibility of the Assets and Liabilities Management Department within the Financial Markets and Corporate Banking Sector. Three basic goals of activities in the portfolio of securities at fair value through other comprehensive income have been defined as follows:

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

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

The table below presents the risk measured with DV01 for the portfolio of securities at fair value through other comprehensive income, including the economic collateral contained in the hedge program (Fair Value Hedge Accounting Program), broken down by currency:

PLN '000	**30.06.2019**			**Total in the period 01.01.2019 – 30.06.2019**		
	Total	**Securities**	**IRS**	**Average**	**Maximum**	**Minimum**
PLN	(3,079)	(3,468)	389	(3,143)	(2,528)	(3,412)
USD	(82)	(82)	-	(54)	-	(92)
EUR	(491)	(491)	-	(458)	(311)	(533)

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

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

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

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

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

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

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

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

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

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

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

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

The values of significant exposures of the bank portfolios to the interest rates risk in terms of DV01 in the first half of 2019 are listed in the table below:

PLN '000	30.06.2019	31.12.2018	in the period 01.01.2019 - 30.06.2019			in the period 01.01.2018 - 30.06.2018		
			Average	Maximum	Minimum	Average	Maximum	Minimum
PLN	477	671	72	587	(568)	131	720	(710)
EUR	93	100	(17)	105	(161)	42	168	(61)
USD	28	54	29	79	(37)	38	98	(21)

The currency structure of the positions in the first half of 2019 has not changed in comparison with the year 2019, as positions in domestic currency USD and EUR were still the majority. The average exposure to interest rates risk PLN remained on a lower level to 2018, whereas EUR and USD positions were on average higher. The average risk level for instruments denominated in PLN amounted to PLN 268 thousand and in EUR it was PLN 67 thousand. The highest exposures were taken in PLN and EUR and were respectively PLN 587 thousand and PLN 105 thousand.

The table below shows the level of risk measured using VaR (excluding resulting from securities at fair value through other comprehensive income portfolio's economic), divided into currency risk and interest rate risk positions in the first half of 2019:

PLN '000	30.06.2019	31.12.2018	In the period 1.01.2019 – 30.06.2019			In the period 1.01.2018 – 30.06.2018		
			Average	Maximum	Minimum	Average	Maximum	Minimum
FX risk	314	174	728	2,829	95	665	2,136	127
Interest rate risk	8,077	6,889	8,827	11,950	4,831	4,239	8,642	1,682
Spread risk	5,365	2,612	4,920	9,697	2,545	5,349	7,509	3,470
Overall risk	9,897	7,334	10,424	13,775	5,861	7,705	11,206	4,371

The overall average price risk (currency, interest rate, spread) of trade portfolios in the first half of 2019 increased by 8% comparing to the average price risk in the I half 2018 and reached the level of PLN 9.9 million, mainly because of the interest rate risk exposure. Considering maximum risk levels, in case of interest rate risk and price risk of the whole trading portfolio they increased in comparison with the previous year. Maximum price risk amounted to PLN 13.8 million while in the I half 2018 it settled at PLN 11.2 million.

Capital instruments risk

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

Currency exposure

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

30 June 2019

PLN '000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	**Liabilities**	**Assets**	**Liabilities**	
EUR	4,455,588	5,758,622	18,834,179	17,575,982	(44,837)
USD	1,302,001	5,513,254	17,828,383	13,607,849	9,281
GBP	13,295	450,144	504,187	68,745	(1,407)
CHF	579,737	203,784	1,774,805	2,154,892	(4,134)
Other currencies	155,474	332,732	1,710,279	1,509,174	23,847
	6,506,095	**12,258,536**	**40,651,833**	**34,916,642**	**(17,250)**

31 December 2018

PLN '000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	**Liabilities**	**Assets**	**Liabilities**	
EUR	4,624,242	4,575,132	15,661,387	15,672,613	37,884
USD	1,530,263	3,765,163	22,219,596	19,954,563	30,133
GBP	12,554	445,558	894,004	461,895	(895)
CHF	607,154	215,197	2,352,073	2,748,500	(4,470)
Other currencies	88,205	234,376	2,046,088	1,892,725	7,192
	6,862,418	**9,235,426**	**43,173,148**	**40,730,296**	**69,844**

Operational risk

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

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

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

In the first half of 2019 the Group has not made any changes in control environment.

Capital adequacy

In the first half of 2019, as well as in the first half of 2018 the Group fulfilled the capital adequacy requirements. Total capital ratio is calculated according to respective regulations.

As a result of a completed inspection, as at 22 June 2019, the Polish Financial Supervision Authority issued a recommendation according to the rules of recognition of compensation agreements according to Article 296 of the Capital Requirements Regulation.

The Bank was recommended to obtain a suitable formal confirmation from PFSA that compensation agreements fulfill Article 296 of CRR. The PFSA in the post-inspection protocol, based on selected agreements verified during the inspection, did not object the compensation process.

The Bank is currently preparing the schedule of PFSA recommendation implementation. The Bank holds the full legal documentation and also has suitable procedures implemented, which according to the Bank's opinion, fulfill requirements of CRR.

If the compensation effect - for the agreements for which the Bank does not have the PFSA confirmation - were eliminated, the value of the TCR as June 30, 2019 would be lowered by 1.4 p.p.

6. Net interest income

PLN '000	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018
Interest income from:	**324,851**	**641,125**	**305,753**	**618,310**
Financial assets measured at amortized cost	**245,573**	**491,823**	**243,276**	**483,952**
Balances with the Central Bank	1,773	3,587	1,578	3,307
Amounts due from banks	3,929	8,622	7,274	12,159
Amounts due from customers, in respect of:	239,871	479,614	234,424	468,486
financial sector	11,280	24,067	14,265	27,252
non-financial sector, including:	228,591	455,547	220,159	441,234
credit cards	69,558	140,079	70,691	141,615
Financial assets measured at fair value through comprehensive income	**79,278**	**149,302**	**62,477**	**134,358**
Debt investment financial assets measured at fair value through comprehensive income	79,278	149,302	62,477	134,358
Similar income from:	**26,206**	**48,637**	**11,229**	**26,654**
Financial assets measured at fair value through financial result	**23,400**	**42,615**	**8,803**	**22,373**
Debt securities held-for-trading	23,400	42,615	8,803	22,373
Liabilities with negative interest rate	**2,746**	**5,920**	**2,426**	**4,281**
Derivatives in hedge accounting	**60**	**102**	**-**	**-**
	351,057	**689,762**	**316,982**	**644,964**
Interest expense and similar charges for				
Financial liabilities measured at amortized cost	**(62,272)**	**(123,347)**	**(45,995)**	**(92,958)**
Amounts due to banks	(19,398)	(41,498)	(8,426)	(21,930)
Amounts due from customers, in respect of:	(41,809)	(79,370)	(37,509)	(70,895)
Amounts due to financial sector entities	(15,187)	(28,317)	(16,053)	(29,910)
Amounts due to non-financial sector entities	(26,622)	(51,053)	(21,456)	(40,985)
Loans and advances acquired	-	(345)	(60)	(133)
Leasing liabilities	(1,065)	(2,134)	-	-
Financial liabilities measured at fair value though financial result	**(432)**	**(714)**	**(392)**	**(4,245)**
Assets with negative interest rate	(215)	(479)	(392)	(536)
Derivatives in hedge accounting	(217)	(235)	-	(3,709)
	(62,704)	**(124,061)**	**(46,387)**	**(97,203)**
Net interest income	**288,353**	**565,701**	**270,595**	**547,761**

7. Net fee and commission income

PLN '000	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018
Fee and commission income				
Insurance and investment products distribution	18,228	34,924	19,593	42,515
Payment and credit cards	42,154	81,016	39,571	77,382
Payment services	27,917	54,027	26,552	52,845
Custody services	25,224	47,862	23,022	43,284
Brokerage activity	9,166	19,024	9,458	23,823
Clients' cash on account management services	6,124	13,611	6,196	13,440
Guarantees granted	4,713	9,470	4,739	9,530
Financial liabilities granted	1,756	3,505	2,002	3,829
Other, including:	41,185	68,759	28,551	56,551
Installment products in credit card	7,188	14,380	6,742	13,292

PLN '000	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018
	176,467	**332,198**	**159,684**	**323,199**
Fee and commission expense				
Payment and credit cards	(8,928)	(16,762)	(8,047)	(16,758)
Brokerage activity	(3,273)	(6,733)	(2,990)	(6,355)
Fees paid to the National Depository for Securities (KDPW)	(5,224)	(10,503)	(4,544)	(9,199)
Brokerage fees	(1,098)	(2,148)	(1,223)	(2,625)
Custody services	-	-	-	-
Other	(4,662)	(8,906)	(4,065)	(7,850)
	(23,185)	**(45,052)**	**(20,869)**	**(42,787)**
Net fee and commission expense	**153,282**	**287,146**	**138,815**	**280,412**

The net commission result for the first half of 2019 comprises commissions (other than included in the calculation of the effective interest rate), which is related to financial assets and liabilities not valued at fair value through profit or loss in the amount of PLN 101,041 thousand (for the first half of 2018: PLN 96,054 thousand) and commission expenses in the amount of PLN 18,795 thousand (for the first half of 2018: PLN 18,819 thousand).

Item "Other" in Fee and commission income includes amount of PLN 12,142 thousand, which is an income generated by the transaction described in the supplementary note no 31.

8. Net income on financial instruments and revaluation

PLN '000	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018
Net income on financial instruments valued at fair value through profit or loss				
Debt instruments	24,191	27,041	8,914	36,941
Equity instruments	(3,531)	(3,864)	(2,191)	(5,034)
Derivative instruments, including:	(60,230)	(78,703)	14,949	40,785
Interest rate derivatives	(65,322)	(85,005)	12,022	34,119
Equity	5,162	6,373	2,898	6,628
Goods	(70)	(71)	29	38
	(39,570)	**(55,526)**	**21,672**	**72,692**
Net income on FX operations				
Operations on FX derivative instruments	(64,790)	196,750	243,756	250,838
FX gains and losses (revaluation)	200,820	46,418	(170,241)	(130,787)
	136,030	**243,168**	**73,515**	**120,051**
Net income on financial instruments and revaluation	**96,460**	**187,642**	**95,187**	**192,743**

Net income on financial instruments and revaluation for the first half of 2019 includes movement in adjustment of the valuation of derivatives from adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN (1,142) thousand (for the first half of 2018: PLN (5,159) thousand). Presented as 'Net income on financial instruments valued at fair value through profit or loss'.

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

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

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

9. Net other operating income and expense

PLN '000	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018
Other operating income				
Income from provision of services for related parties outside the Group	1,700	4,387	1,338	3,376
Income from office rental	1,941	3,790	1,851	3,957
Income from value added tax (VAT) settlement for previous years	-	-	-	-
Reversal of net provisions for litigation	-	-	42	106
Other, including:	2,649	5,005	2,940	15,331
reimbursement of legal and enforcement costs	662	1,260	715	1,418
	6,290	**13,182**	**6,171**	**22,770**
Other operating expenses				
Amicable procedure and vindication expenses	(2,311)	(4,352)	(1,927)	(4,450)
Fixed assets held-for-sale maintenance cost	-	-	(14)	(26)
Net provision for litigation	(240)	(256)	-	-
Other, including:	(4,883)	(9,902)	(5,571)	(9,395)
donations	(945)	(1,942)	(985)	(2,075)
	(7,434)	**(14,510)**	**(7,512)**	**(13,871)**
Net other operating income	**(1,144)**	**(1,328)**	**(1,341)**	**8,899**

10. General administrative expenses

PLN '000	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018
Staff expenses				
Remuneration costs, including:	(95,954)	(196,814)	(95,805)	(197,862)
Costs of retirement benefits	(6,993)	(13,862)	(6,827)	(13,642)
Bonuses and rewards including:	(17,724)	(37,741)	(16,221)	(40,848)
Equity compensations	407	(1,861)	(712)	(3,391)
Rewards for multiannual work	-	(14)	-	(18)
Social security costs	(16,717)	(38,496)	(15,609)	(36,974)
	(130,395)	**(273,051)**	**(127,635)**	**(275,684)**
Administrative expenses				
Telecommunication costs and hardware purchase costs	(49,301)	(94,366)	(46,427)	(89,879)
Costs of external services, including advisory, audit, consulting services	(13,530)	(26,772)	(13,574)	(28,267)
Building maintenance and rent costs	(12,462)	(24,491)	(15,761)	(32,074)
Marketing costs	(11,413)	(23,849)	(12,435)	(27,430)
Costs of cash management services, costs of cleaning services and other transaction costs	(9,143)	(17,945)	(9,823)	(18,812)
Costs of external services related to distribution of banking products	(11,113)	(21,697)	(10,436)	(18,986)
Postal services, office supplies and printmaking costs	(2,413)	(4,152)	(2,269)	(3,947)
Training and education costs	(250)	(428)	(377)	(728)
Banking supervision costs	(83)	(5,834)	(50)	(3,121)
Costs paid to Bank Guarantee Fund	(2,282)	(97,693)	(3,465)	(54,705)
Other expenses	(15,458)	(30,567)	(19,329)	(35,337)
	(127,448)	**(347,794)**	**(133,946)**	**(313,286)**
General administrative expenses, total	**(257,843)**	**(620,845)**	**(261,581)**	**(588,970)**

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

PLN '000	01.01 – 30.06. 2019	01.01 – 30.06. 2018
Short-term employee benefits (services)	6,935	6,442
Long-term employee benefits (services)	1,460	1,619
Equity compensations	307	1,591
	8,702	**9,652**

Changes of the restructuring provision

Table below presents a change of restructuring provisions created for costs of restructuring of workforce and the retail branch network, which started in 2013.

PLN '000	01.01. – 30.06.2019		01.01. – 30.06.2018	
	Employment restructuring provision	Branch network restructuring provision	Employment restructuring provision	Branch network restructuring provision
Balance on January 1	**-**	**282**	**429**	**1,928**
Increases:				
Provision created	1,251	-	-	-
Decreases:				
Provision utilised	(675)	-	-	(461)
Provision release	-	-	(429)	-
Balance at the end of period	**576**	**282**	**-**	**1,467**

PLN '000	01.01. – 31.12.2018	
	Employment restructuring provision	Branch network restructuring provision
Balance on January 1	**429**	**1,928**
Decreases:		
Provision utilised	-	(461)
Provision release	(429)	(1,185)
Balance at the end of period	**-**	**282**

11. Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments

PLN '000	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018
Provision for expected credit losses on amounts due from banks				
Provision creation	(425)	(945)	(777)	(3,021)
Provision release	659	1,191	1,001	1,609
	234	**246**	**224**	**(1,412)**
Provision for expected credit losses on amounts due from customers				
Provision creation and reversals	**(101,500)**	**(131,645)**	**(30,515)**	**(34,267)**
Provision creation	(135,035)	(193,342)	(60,340)	(109,729)
Provision creation on past due derivative instruments	(1)	(5)	(12)	(51)
Provision release	33,735	61,954	30,216	75,865
Provision release on past due derivative instruments	44	92	84	129
Other	(243)	(344)	(463)	(481)
Recoveries from debt sold (written-off)	**24**	**33**	**7**	**14**

PLN '000	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018
	(101,476)	**(131,612)**	**(30,508)**	**(34,253)**
Provision for expected credit losses on debt investment financial assets measured at fair value through other comprehensive income				
Provision creation	(766)	(1,544)	-	-
Provision release	-	-	178	620
	(766)	**(1,544)**	**178**	**620**
Provision for expected credit losses on financial assets	**(102,008)**	**(132,910)**	**(30,106)**	**(35,045)**
Created provisions for granted financial and guarantee commitments	(9,891)	(15,755)	(7,866)	(16,820)
Release of provisions for granted financial and guarantee commitments	5,415	13,903	10,980	19,341
Provision for expected credit losses for granted off-balance sheet commitments	**(4,476)**	**(1,852)**	**3,114**	**2,521**
Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments	**(106,484)**	**(134,762)**	**(26,992)**	**(32,524)**

12. Income tax

Recognized in the income statement

PLN '000	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018
Current tax				
Current year CIT	(67,816)	(126,966)	(69,091)	(107,714)
Adjustments for prior years	-	(392)	-	(1,120)
	(67,816)	**(127,358)**	**(69,091)**	**(108,834)**
Deferred tax				
Net changes on temporary differences	30,711	46,798	21,049	9,983
	30,711	**46,798**	**21,049**	**9,983**
Income tax expense	**(37,105)**	**(80,560)**	**(48,042)**	**(98,851)**

Reconciliation of the effective tax rate

PLN '000	II quarter 01.04. - 30.06. 2019	I half of the year 01.01. - 30.06. 2019	II quarter 01.04. - 30.06. 2018	I half of the year 01.01. - 30.06. 2018
Profit before tax	170,232	273,186	230,412	427,063
Income tax at the tax rate of 19%	(32,344)	(51,905)	(43,778)	(81,142)
Provisions for impairment losses not tax deductible	(397)	(882)	(269)	751
Taxable income not recognized in the income statement	196	(18)	(162)	(1,137)
Non-taxable income	1,800	2,005	1,689	1,747
Tax on some financial institutions	(4,240)	(8,399)	(4,358)	(7,967)
Costs paid for Bank Guarantee Fund	(434)	(18,562)	(658)	(10,394)
Other permanent differences, including other expenses not deductible for income	(1,686)	(2,799)	(506)	(709)
Income tax expense	**(37,105)**	**(80,560)**	**(48,042)**	**(98,851)**
Effective tax rate	**21.8%**	**29.49%**	**20.85%**	**23.15%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 30 June 2019 is related to financial assets measured at fair value through other comprehensive income and defined benefit program valuation and equals PLN (21,607) thousand (30 June 2018: PLN 5,639 thousand).

13. Statement of changes in other comprehensive income

Deferred income tax recognized in other comprehensive income relates to the valuation of financial assets measured at fair value through revaluation reserve and the valuation of defined benefit program recognized in the other reserves.

PLN '000	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2019	**94,399**	**(17,937)**	**76,462**
Change in valuation of financial assets measured at fair value through other comprehensive income	73,463	(13,958)	59,505
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(54,147)	10,288	(43,859)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**113,715**	**(21,607)**	**92,108**
Balance as at 30 June 2019	**113,715**	**(21,607)**	**92,108**

PLN '000	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2018	**(17,513)**	**3,327**	**(14,186)**
Impact of adopting IFRS 9	(1,086)	290	(796)
Balance as at 1 January 2018 including impact of adopting IFRS 9	**(18,599)**	**3,617**	**(14,982)**
Change in valuation of financial assets measured at fair value through other comprehensive income	229,136	(43,619)	185,517
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(112,631)	21,400	(91,231)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**97,906**	**(18,602)**	**79,304**
Actuarial profits/(losses) on specific services program valuation	(3,507)	665	(2,842)
Balance as at 30 June 2018	**94,399**	**(17,937)**	**76,462**

14. Amounts due from banks

PLN '000	30.06.2019	31.12.2018
Current accounts	171,546	203,311
Deposits	10,158	386,058
Credits and loans	28	28
Receivables due to purchased securities with repurchase agreement	675,904	630,126
Deposits pledged as collateral for derivative transactions and stock exchange transactions	106,621	118,364
Total gross value	**964,257**	**1,337,887**
Provision for expected credit losses	(3,672)	(3,910)
Total net value	**960,585**	**1,333,977**

Movement in amounts due from banks presents as follows:

PLN '000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses - amounts due from banks				
Provision for expected credit losses as at 1 January 2019	**(3,910)**	**-**	**-**	**(3,910)**
Transfer to Stage 1	**-**	-	-	-
Transfer to Stage 2	**-**	-	-	-
Transfer to Stage 3	**-**	-	-	-
Creation/Releases in the period though the income statement	246	-	-	246

PLN '000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses - amounts due from banks				
Foreign exchange and other movements	(8)	-	-	(8)
Loss allowance as at 30 June 2018	**(3,672)**	**-**	**-**	**(3,672)**

As at 30 June 2019 the Group did not identify POCI assets (purchased or originated credit-impaired assets).

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

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

15. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN '000	30.06.2019	31.12.2018
Debt securities held-for-trading		
Bonds and notes issued by:		
Banks*	1	1
Other financial units	34,893	12,943
Government	4,127,620	918,228
	4,162,514	**931,172**
Including:		
Listed on the active market	4,162,514	931,172
Equity instruments held-for-trading	**67,512**	**23,227**
Including:		
Listed on the active market	67,512	23,227
Derivatives	**1,442,437**	**1,282,677**
Financial assets held-for-trading, total	**5,672,463**	**2,237,076**

**As at 30 June 2019 securities (bonds) issued by banks in amount PLN 1 thousand are guaranteed by the State Treasury (31 December 2018: PLN 1 thousand).*

Financial liabilities held-for-trading

PLN '000	30.06.2019	31.12.2018
Liabilities related to short-sale of securities	166,158	351,323
Derivatives	1,573,635	1,258,059
Financial liabilities held-for-trading, total	**1,739,793**	**1,609,382**

As at 30 June 2019 and 31 December 2018 the Group did not hold any financial assets and liabilities designed at fair value through profit or loss initial recognition.

Derivative financial instruments as at 30 June 2019

PLN '000	Notional value of derivatives with remaining life of				Total	Fair value	
	less than three months	between three months and one year	between one year and five years	more than five years		Assets	Liabilities
Interest rate instruments	17,104,588	37,603,592	116,603,471	28,840,377	200,152,028	1,136,151	1,263,319
Currency instruments	22,527,369	5,272,906	10,330,289	-	38,130,564	287,941	291,834
Securities transactions	2,768,015	5,020	-	-	2,773,035	1,474	1,498
Commodity transactions	101,656	212,480	183,199	-	497,335	16,871	16,984
Derivative instruments total	**42,501,628**	**43,093,998**	**127,116,959**	**28,840,377**	**241,552,962**	**1,442,437**	**1,573,635**

Derivative financial instruments as at 31 December 2018

PLN '000	Notional value of derivatives with remaining life of				Total	Fair value	
	less than three months	between three months and one year	between one year and five years	more than five years		Assets	Liabilities
Interest rate instruments	45,235,963	51,859,256	105,616,028	27,776,966	230,488,213	1,024,561	1,116,297
Currency instruments	32,212,333	6,332,761	3,488,981	96,238	42,130,313	251,047	134,236
Securities transactions	334,840	9,768	-	-	344,608	1,101	1,475
Commodity transactions	29,173	107,533	72,095	-	208,801	5,968	6,051
Derivative instruments total	**77,812,309**	**58,309,318**	**109,177,104**	**27,873,204**	**273,171,935**	**1,282,677**	**1,258,059**

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

PLN '000	30.06.2019	31.12.2018
Bonds and notes issued by:		
Central Banks	3,299,582	-
Other financial sector entities	670,773	224,074
Central governments, including:	15,866,610	14,017,289
Covered bonds in fair value hedge accounting	1,910,342	-
Debt securities measured at fair value through other comprehensive income, total	**19,836,965**	**14,241,363**
Including:		
Listed instruments on the active market	16,537,383	14,241,363
Unlisted instruments on the active market	3,299,582	-

17. Amounts due from customers

PLN '000	30.06.2019	31.12.2018
Amounts due from financial sector entities		
Loans, placements and advances	516,124	401,223
Debt financial assets unlisted	742,036	1,156,233
Receivables due to purchased securities with a repurchase agreement	7,778	182,613
Guarantee funds and deposits pledged as collateral	635,532	362,807
Other receivables	183,793	45,330
Total gross value	**2,085,263**	**2,148,206**
Provision for expected credit losses	(1,395)	(1,391)
Total net value	**2,083,868**	**2,146,815**

PLN '000	30.06.2019	31.12.2018
Amounts due from non-financial sector entities		
Loans and advances	18,960,464	18,047,445
Unlisted debt financial assets	305,850	568,024
Purchased receivables	1,530,187	1,830,937
Realized guarantees	481	481
Other receivables	21,862	20,481
Total gross value	**20,818,844**	**20,467,368**
Provision for expected credit losses	(791,439)	(665,169)
Total net value	**20,027,405**	**19,802,199**
Total net value of receivables from customers	**22,111,273**	**21,949,014**

In accordance with Transition Resource Group for Impairment of Financial Instruments the value of receivables in Stage 3 shall be presented increased by accrued contractual interest in total amount of PLN 423,549 thousand (at the end of 2018 of PLN 411,529 thousand). The result of this presentation of receivables is also the growth of loan provisions by the same amount. This change has no influence on total net value of receivables in Stage 3.

PLN '000	30.06.2019	30.06.2018
Gross total value including contract interest in Stage 3	23,347,766	23,027,103
Provision for expected credit losses including contract interest in Stage 3	(1,236,493)	(1,078,089)
Net total value	**22,111,273**	**21,949,014**

Movement in amounts due from customers presents as follows:

PLN '000 **Provision for expected credit losses - amounts due from customers**	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses as at 1 January 2019	**(56,110)**	**(74,776)**	**(535,674)**	**(666,560)**
Transfer to Stage 1	(304)	304	-	-
Transfer to Stage 2	804	(804)	-	-
Transfer to Stage 3	73	6,237	(6,310)	-
Creation/Releases in the period though the income statement	699	(11,795)	(119,382)	(130,478)
Net changes due to modification derecognition	-	-	(1,167)	(1,167)
Amounts written off	-	-	5,756	5,756
Foreign exchange and other movements	68	31	(484)	(385)
Provision for expected credit losses as at 30 June 2019	**(54,770)**	**(80,803)**	**(657,261)**	**(792,834)**

As at 30 June 2019 the Group did not identify POCI assets (purchased or originated credit-impaired assets).

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

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

18. Deferred income tax asset

PLN '000	**30.06.2019**	**31.12.2018**
Deferred income tax asset	666,247	540,524
Deferred income tax liability	(416,981)	(336,317)
Deferred income tax net asset	**249,266**	**204,207**

Deferred income tax asset and liabilities are presented in the statement of financial position on net basis.

19. Other assets

PLN '000	**30.06.2019**	**31.12.2018**
Interbank settlements	3,581	2,981
Interdepartmental settlements	4,066	-
Settlements related to securities trade	84	-
Settlements related to brokerage activity	93,063	34,217
Income to receive	69,083	53,170
Staff loans out of the Social Fund	16,577	17,427
Sundry debtors	94,867	106,198
Prepayments	16,385	8,925
Other assets, total	**297,706**	**222,918**
Including financial assets*	212,238	160,823

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

20. Amounts due to banks

PLN '000	**30.06.2019**	**31.12.2018**
Current accounts	2,354,058	912,995
Time deposits	1,541,258	162,737
Credits and loans received	-	1,326
Liabilities due to sold securities under repurchase agreements	158,860	115,208
Other liabilities, including:	283,526	209,967
Margin deposits	261,262	208,901
Total amounts due to banks	**4,337,702**	**1,402,233**

The movement in amounts due to banks is as follows:

PLN '000	**01.01.-30.06.2019**	**01.01.-30.06.2018**
As the beginning of period	**1,326**	**36,467**
Increases due to:		
Received credit and loans interest	345	246
Currency differences	1	549
Decreases due to:		
Credits and loans repayment	(1,669)	(35 866)
Interest repayment	(3)	(70)
As at the end of period	**-**	**1,326**

21. Amounts due to customers

PLN '000	**30.06.2019**	**31.12.2018**
Deposits from financial sector entities		
Current accounts	1,193,242	704,512
Deposits	5,427,763	6,335,488
	6,621,005	**7,040,000**
Deposits from non-financial sector entities		
Current accounts, including:	24,069,540	24,987,518
institutional customers	12,332,341	11,930,693
individual customers	9,579,307	9,380,065
budgetary units	2,157,892	3,676,760
Time deposits, including:	6,074,266	6,069,930
institutional customers	3,077,379	3,476,957
individual customers	2,851,625	2,523,267
budgetary units	145,262	69,706
	30,143,806	**31,057,448**
Total deposits	**36,764,811**	**38,097,448**
Other liabilities		
Liabilities due to sold securities under repurchase agreements	7,792	-
Other liabilities, including:	241,393	236,897
cash collateral	164,952	121,416
hedging deposits	38,690	66,583
Total other liabilities	**249,185**	**236,897**
Total amounts due to customers	**37,013,996**	**38,334,345**

22. Other liabilities

PLN '000	**30.06.2019**	**31.12.2018**
Staff benefits	40,411	35,459
Interbank settlements	288,990	120,783
Inter-system settlements	-	1,197
Settlements related to securities trade	4,643	284
Settlements related to brokerage activity	274,582	61,885
Liabilities due to leasing assets	141,978	-
Sundry creditors	277,046	295,702
Accruals, including:	357,689	242,908
Provision for employee payments	78,614	83,930
Provision for employee retirement	60,476	58,340
IT services and bank operations support	51,347	36,145
Consultancy services and business support	11,047	5,774
Other	156,205	58,719
Deferred income	24,439	21,177
Settlements with Tax Office and National Insurance (ZUS)	115,042	26,328
Other liabilities, total	**1,524,820**	**805,723**
Including financial liabilities*	1,385,339	758,218

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

23. Financial assets and liabilities by maturity date

As at 30 June 2019

PLN '000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
Amounts due from banks (Gross)	14	**964,257**	**724,325**	**10,000**	**-**	**229,932**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	15	4,162,514	328,015	-	92,697	3,295,674	446,128
Financial assets measured at fair value through other comprehensive income							
Debt securities measured at fair value through other comprehensive income	16	19,836,965	3,299,583	-	1,289,493	11,999,604	3,248,285
Amounts due from customers (gross)							
Amounts due from financial sector entities	17	2,085,263	873,602	-	1,211,661	-	-
Amounts due from non-financial sector entities	17	20,818,844	7,685,626	1,231,953	1,710,016	8,095,074	2,096,175
Amounts due to banks	20	**4,337,702**	**4,320,531**	**2,000**	**15,065**	**49**	**57**
Amounts due to customers							
Amounts due to financial sector entities:	21	6,664,404	6,251,551	410,610	2,222	-	21
Amounts due to non-financial sector entities	21	30,349,592	28,217,068	1,354,171	750,774	27,526	53

As at 31 December 2018

PLN '000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
Amounts due from banks (Gross)	14	**1,337,887**	**812,646**	**-**	**296,245**	**228,996**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	15	931,172	32,546	-	17,948	648,758	231,920
Financial assets measured at fair value through other comprehensive income							
Debt securities measured at fair value through other comprehensive income	16	14,241,363	121,044	-	-	11,499,980	2,620,339
Amounts due from customers (gross)							
Amounts due from financial sector entities	17	2,148,206	498,115	-	1,550,091	100,000	-
Amounts due from non-financial sector entities	17	20,467,368	7,704,493	1,492,378	2,510,333	6,886,074	1,874,090
Amounts due to banks	20	**1,402,233**	**1,384,456**	**2,683**	**15,000**	**43**	**51**
Amounts due to customers							
Amounts due to financial sector entities:	21	7,103,501	7,100,962	446	2,072	-	21
Amounts due to non-financial sector entities	21	31,230,844	29,720,688	1,054,054	434,847	21,202	53

24. Financial instruments disclosures

Fair value of financial assets and liabilities

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

PLN '000	Note	30.06.2019		31.12.2018	
		Balance value	Fair value	Balance value	Fair value
Assets					
Cash and balances with the Central Bank		376,742	376,742	7,272,193	7,272,193
Amounts due from banks	14	960,585	960,589	1,333,977	1,333,896
Amounts due from customers	17	22,111,273	22,167,201	21,949,014	21,897,248
Liabilities					
Amounts due to banks	20	4,337,702	4,337,752	1,402,233	1,402,326
Amounts due to customers	21	37,013,996	37,009,071	38,334,345	38,332,779

Valuation methods and assumptions used for the purposes of measurement at fair value

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

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

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

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

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

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

Fair value included in consolidated statement of financial position

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

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

  The active market includes stock and brokerage quotes and quotes in pricing services type systems, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include debt securities held-for-trading or measured at fair value through other comprehensive income.
- Level II: financial assets / liabilities valued on the basis of models based on input data from the active market, presented in Reuters and Bloomberg systems. Depending on financial instruments, the following specific valuation techniques are used:
  - listed prices for a given instrument or listed prices for an alternative instrument,
  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments,
  - other techniques, such as yield curves based on alternative prices for a given financial instrument.
- Level III: financial assets / liabilities valued on the basis of valuation techniques using relevant, non-market parameters.

The tables below present values of financial instruments in the consolidated statement of financial position, in accordance with a fair value classified by above levels.

As at 30 June 2019

PLN '000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	15	4,230,025	1,442,438	-	5,672,463
Derivatives		-	1,442,437	-	1,442,437
Debt securities		4,162,513	1	-	4,162,514
Equity instruments		67,512	-	-	67,512
Hedging derivatives		-	474	-	474
Debt investment financial assets measured at fair value through other comprehensive income	16	16,537,383	3,299,582	-	19,836,965
Equity and other instruments measured at fair value through income statement		1,203	-	57,241	58,444

PLN '000	Note	Level I	Level II	Level III	Total
Financial liabilities					
Financial liabilities held-for-trading	15	166,158	1,573,635	-	1,739,793
Short sale of securities		166,158	-	-	166,158
Derivatives		-	1,573,635	-	1,573,635
Hedging derivatives		-	4,064	-	4,064

As at 31 December 2018

PLN '000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	15	955,120	1,281,956	-	2,237,076
Derivatives		722	1,281,955	-	1,282,677
Debt securities		931,171	1	-	931,172
Equity instruments		23,227	-	-	23,227
Debt investment financial assets measured at fair value through other comprehensive income	16	14,241,363	-	-	14,241,363
Equity and other instruments measured at fair value through income statement		1,027	-	47,741	48,768
Financial liabilities					
Financial liabilities held-for-trading	15	351,323	1,258,059	-	1,609,382
Short sale of securities		351,323	-	-	351,323
Derivatives		-	1,258,059	-	1,258,059

On the 30th of June 2019 the amount of financial assets classified to the Level III includes the share of PLN 37,036 thousand in Visa Inc. and the share of PLN 20,205 thousand in other minority shareholding.

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

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

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

	Equity and other investments measured at fair value through income statement	
PLN '000	01.01.-31.06. 2019	01.01.-31.12. 2018
As at the beginning of period	**47,741**	**41,248**
Sale	(600)	-
Revaluation	10,100	6,493
As at the end of period	**57,241**	**47,741**

In the first half of 2019 the Group has made no transfers between levels of instruments' fair value due to established method of setting fair value.

In the first half of 2019, 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).

During the same period, the Group has not made any changes in financial assets classification that could result from asset's purpose or usage change.

In the first half of 2019 there was no change in the business or economic situation that could influence the fair value of Group's financial assets or liabilities, regardless of their presentation in the fair value or amortized cost.

As at 30 June 2019, there was no substantial change in the financial instruments fair value, classified to measure at the fair value portfolio in comparison to the end of 2018 reporting period. However, an increase of that portfolio was mainly due to increase of the securities held-for-trading portfolio as well as the securities held-for-sale portfolio.

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

The net gain/(loss) on derecognition of financial assets in Group relates to the gain on debt investment financial assets measured at fair value through other comprehensive income and amounted to 54,147 thousand PLN in the first half of 2019 (in the first half of 2018: PLN 79,193 thousand).

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

26. Hedge accounting

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

IRS is the hedging instrument denominated in the same currency as hedged instruments (as at 30 June 2019 only in PLN) in which the Groups receives variable inflows and pays fixed.

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

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

As at 30 June 2019, the Group has active hedging relations, designated in this reporting period. Details of hedging instruments and effectiveness of designated hedging relationships are presented below.

PLN '000	Notional value	Balance sheet value		Item in the statement of financial position	Change in fair value used to measure hedge ineffectiveness
		Assets	Liabilities		
Fair value hedge accounting					
Interest rate risk					
IRS Transactions	1,688,000	474	4,064	Hedging derivatives	(3,307)

Details on hedged positions are presented below.

PLN '000	Balance sheet value		Cumulative adjustment due to hedge accounting in balance sheet value of hedged item	Item in the statement of financial position	Change in fair value used to measure hedge ineffectiveness
	Assets	Liabilities			
Fair value hedge accounting					
Interest rate risk					
State Treasury bonds	1,910,342	-	2,549	Debt investment securities measured at fair value through other comprehensive income	2,549

The cumulated amount of hedge accounting adjustments in the statement of financial position for all hedged items, for which hedge accounting was suspended as at 30 June 2019 amounts to PLN (32,581) thousand (as at 31 December 2019: PLN 39,399 thousand).

Information on effectiveness of hedging relationships is presented below.

	Hedge ineffectiveness recognized in the income statement	Item in the income statement
Fair value hedge accounting		
Interest rate risk	(758)	Net income on hedge accounting

27. Additional information to the statement of cash flows

PLN '000	30.06.2019	31.12.2018	30.06.2018
Cash related items:			
Cash in hand	364,964	422,064	376,028

PLN '000	30.06.2019	31.12.2018	30.06.2018
Nostro current account in Central Bank	11,172	6,850,088	133,015
Current accounts in other banks (nostro, overdrafts on loro accounts)	171,093	202,826	49,938
	547,229	**7,474,978**	**558,981**

28. Seasonality or periodicity of business activity

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

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

In the first half of the year 2019 no issue, pay back or repurchase of debt or equity securities took place.

30. Paid or declared dividends

Dividends paid for 2018

The Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter GM) adopted a resolution on distribution of the net profit for 2018 on June 5, 2019. The Meeting resolved to appropriate the amount of PLN 488,666,904.00 for the dividend payment, which means that the dividend per one ordinary share is PLN 3.74. The dividend has cash character and the number of shares covered by the dividend equals to 130,659,600.

Simultaneously, the GM resolved to set the date of the right to the dividend for June 13, 2019 (the day of the dividend) and the day of the dividend payment for June 24, 2019 (the day of the dividend payment).

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

31. Changes in Group's structure

In the second quarter of 2019 there was a change in the Group's structure as compared to 31 March 2019. The entire shareholding in Bimmer Sp. z o.o. purchased on 8th of March 2019 was disposed to an external investor on 30th of May for the price of PLN 17.1 million. The company's activity is insurance intermediary, in particular servicing insurance products which the Bank has historically excluded from its offer. The transaction resulted in increase of fee & commission income by PLN 12.1 million in the second quarter of 2019, while the rest will be amortized over time.

32. Changes in granted and received financial and guarantee commitments

The detailed specification of granted and received financial and guarantee commitments as at 30 June 2018 and changes in comparison with the end of 2017 are as follows:

PLN '000	State as at		Change	
	30.06.2019	31.12.2018	PLN '000	%
Contingent liabilities and guarantees granted				
Letters of credit	134,766	137,669	(2,903)	(2.11%)
Guarantees granted	2,406,399	2,589,013	(182,614)	(7.05%)
Credit lines granted	15,069,532	14,023,057	1,046,475	7.46%
Underwriting other issuers' securities issues	49,225	47,587	1,638	3.44%
	17,659,922	**16,797,326**	**862,596**	**5.14%**
Letters of credit				
Import letters of credit issued	132,996	137,669	(4,673)	(3.39%)
Export letters of credit confirmed	1,770	-	1,770	-
	134,766	**137,669**	**(2,903)**	**(2.11%)**

The provisions of contingent liabilities and guarantees granted by the Bank are established. As at 30 June, 2019 the amount of provisions of granted contingent liabilities and guarantees was PLN 28,367 thousand (31 December 2018: PLN 26,481 thousand).
Guarantees granted include guarantees of credit repayment for payer, other guarantees of payment, guarantees on advance

payments, guarantees on properly performance, tender guarantees and endorsements on bills.

PLN '000	State as at		Change	
	30.06.2019	31.12.2018	PLN '000	%
Contingent liabilities and guarantees received				
Financial	-	-	-	-
Guarantees	19,529,479	19,278,757	250,722	1.3%
	19,529,479	**19,278,757**	**250,722**	**1.3%**

33. Information about shareholders

The table below present the list of shareholders that hold, at both 30 June 2019 and the day of publishing the consolidated financial statements for the first half of 2019, 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 ('000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

In the first half of 2019 the structure of major shareholdings of the Bank has not undergone any changes comparing to the first half of 2018.

34. 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 Semi-annual Financial Statements for the first half of 2019	Number of shares on day of publishing the Consolidated Financial Report for the 2018	Number of shares on day of publishing the Semi-annual Financial Statements for the first half of 2018
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.

35. Information on pending proceedings

In the half of 2019 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 make at least 10% of own equities of the Group.

Total value of all proceedings with the participation of the Group concerning receivables and liabilities in the 1 half of 2019 did not make at least 10% of own equities of the Group.

Total value of liabilities of the Group from proceedings in terms of liabilities in the 1 half of 2019 did not make at least 10% of own equities of the Group.

On January 2019, the Bank became aware of the filing of lawsuits by two previous agents, Rigall Arteria Management Ltd. with registered office in Warsaw and Rotsa Sales Direct Ltd. with registered office in Katowice. The lawsuits concerned claims related to agency agreements which in the past merged agents with the Bank and which expired as a result of termination by the Bank in 2014.
As at 27 May 2019 Rigall Management Sp. z.o.o. spółka komandytowa with its registered office in Warsaw submitted a statement of claim for the payment of PLN 386,139,180.89 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 50,017,463.89 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement with covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, which was terminated in 2014. The Court has referred the matter to mediation proceedings. The deadline to replay to the statement of claim is three months since mediations finish.

In the Bank's opinion, the amount of claims filed by the companies is not justified. The Bank's position is confirmed by legally binding resolutions of legal actions taken by the companies against the Bank, which are beneficial for the Bank. Until the publication of this financial statements the Bank has not received summons from Rotsa Sales Direct sp. z o.o.

As at 30 June 2019, the Bank was, among others, a party to 19 court proceedings associated directly with derivative transactions that have not been legally terminated: in 12 proceedings the Bank acted as a defendant and in 7 as a plaintiff. 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 have begun again. In the first quarter of 2018, the Bank received the reimbursed of the fine, which was recognized in the profit and loss. In the first half of 2019 no settlements were made.

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, the Group creates adequate reserves. The amount of created provisions was equal to PLN 3,447 thousand as at 30 June 2019 (PLN 3,221 thousand as at 31 December 2018).

In the first half of 2019 the Group did not make any significant settlement due to court ended with the final judgment.

36. Transactions with the key management personnel

PLN '000		30.06.2019		31.12.2018
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**121**	**-**	**165**	**-**
Deposits				
Current accounts	10,076	10,245	8,969	2,307
Term deposits	8,955	2,423	7,695	380
	19,031	**12,668**	**16,664**	**2,687**

As at 30 June 2019 and 31 December 2018, no loans or guarantees were granted to members of the Management Board and the Supervisory Board.

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

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

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

37. Related parties

Transactions with related parties

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

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

The transactions with related entities result from current activity of the Group, and mainly include loans, deposits, guarantees and derivatives transactions.

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

Transactions with Citigroup Inc. entities

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

PLN '000	**30.06.2019**	**31.12.2018**
Receivables, including:	**141,218**	**172,180**
Deposits	-	-
Liabilities, including:	**3,716,842**	**780,029**
Deposits*	1,780,441	218,934
Received credits	-	-
Derivative		
Assets held-for-trading	437,008	449,183
Liabilities held-for-trading	339,894	379,293
Liabilities on hedge derivatives	-	-
Contingent liabilities granted	**429,279**	**439,748**
Contingent liabilities received	**62,529**	**34,834**
Contingent derivative transactions (liabilities granted/received), including:	**46,199,897**	**57,380,600**
Interest rate instruments	27,179,870	28,293,455
Currency instruments	18,440,831	28,881,240
Securities transactions	330,529	101,504
Commodity transactions	248,667	104,401

**Including deposits of parent undertaking in amount of PLN 10 thousand (31 December 2018: PLN 9 thousand).*

PLN '000	**01.01. – 30.06. 2019**	**01.01. – 30.06. 2018**
Interest and commission income*	18,456	19,372
Interest and commission expense*	35,588	16,662
General administrative expenses	86,678	80,560
Other operating income	4,387	3,376

**Interest and commission income in amount of PLN 631 thousand (for the first half of 2018: PLN 800 thousand) and interest and commission expense in amount of PLN 2 thousand (for the first half of 2018 PLN 2 thousand) refer to parent undertaking.*

The Group receives income and incurs costs on derivative transactions with entities of Citigroup Inc. in order to hedge market risk. These are back to back derivative transactions, opposite to transactions with Group's other clients and closing Bank's own position that is related to the risk of market parameter (exchange rate, FX), whereas the stable part e.g. the margin cannot be closed due to the risk involved in those transactions On 30 June 2019 net balance valuation of transactions on derivatives amounted to PLN (97,114) thousand (31 December 2018: PLN (69,890) thousand). The Group runs a compression of derivative transaction portfolios' periodically. It is one of the risk-mitigation techniques recommended by the "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulation this in particular applies to the portfolios exceeding 500 derivative transactions.

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

In the first half of 2019 the costs incurred and accrued (including VAT reflected in the Group's costs) in the from the agreements were connected, in particular, with costs of services regarding the maintenance of Bank's information systems and advisory support and are presented in the General administrative expenses and other operating expenses; income was related to data processing and other services rendered by the Bank and is presented in the Other operating income.

In first half of 2019 there was a capitalization of investments regarding efforts over modification of functionality of IT Bank's systems'. Total value of payments to Citigroup Inc. units amounted to PLN 397 thousand (in 2018: PLN 32,912 thousand).

38. Other significant information

Personal changes in the Bank's bodies.

On 1 February 2019 Mr. James Foley started a three-year term as Management Board member. Mr. Foley was appointed by the Supervisory Board as a Management Board member on 7 December 2018.

On 4 June 2019 Mr. Marek Belka and Mr. Grzegorz Bielicki handed in theirs' resignation from the function of Member of the Supervisory Board. On 5 June 2019 Annual General Meeting of Shareholders appointed Mrs. Anna Rulkiewicz and Mrs. Barbara Smalska to the function of Member of the Supervisory Board.

On 27 June 2019 Mr. Marc Luet handed in his resignation from the function of Member of the Supervisory Board.

39. Significant events after the balance sheet date

After the balance sheet date there were no events that should be disclosed in the financial statements.

Members of Management Board

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