TRANSLATION

BANK HANDLOWY W WARSZAWIE S.A.

2014 ANNUAL REPORT

MARCH 2015

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2014	2013	2014	2013
Interest income	1,478,451	1,627,970	352,911	386,599
Fee and commission income	662,203	676,415	158,070	160,630
Profit before tax	1,187,691	1,173,316	283,506	278,631
Net profit	971,423	934,782	231,882	221,986
Total comprehensive income	1,061,579	634,013	253,402	150,561
Increase/decrease of net cash	612,687	(413,634)	146 250	(98,227)
Total assets	49,603,377	44,961,757	11,637,702	10,841,473
Amounts due to banks	5,004,190	6,172,957	1,174,059	1,488,464
Amounts due to customers	29,803,545	26,634,357	6,992,362	6,422,250
Shareholders' equity	7,348,585	7,221,222	1,724,089	1,741,228
Share capital	522,638	522,638	122,619	126,022
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	56.24	55.27	13,19	13.33
Capital adequacy ratio (in %)	17.2	17.0	17.2	17.0
Earnings per share (PLN/EUR)	7.43	7.15	1.77	1.70
Diluted net earnings per share (PLN/EUR)	7.43	7.15	1.77	1.70
Declared or paid dividends per share (PLN/EUR)*	7.43	7.15	1.74	1.72

**The presented ratios are related to declared dividend from the appropriation of the 2014 profit and dividend paid in 2014 from the appropriation of the 2013 profit.*

***The following foreign exchange rates were applied to convert PLN into EUR: for the statement of financial position - NBP mid exchange rate as at 31 December 2014 - PLN 4.2623 (as at 31 December 2013: PLN 4.1472); for the income statement, statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in 2014 – PLN 4.1893 (in 2013: PLN 4.2110).*

TRANSLATION

The Annual Financial Statements of Bank Handlowy w Warszawie S.A. for the Financial Year Ended 31 December 2014

March 2015

CONTENTS

Income statement

For the period PLN'000	Note	2014	2013
Interest and similar income	4	1,478,451	1,627,970
Interest expense and similar charges	4	(328,885)	(405,845)
Net interest income	4	**1,149,566**	**1,222,125**
Fee and commission income	5	662,203	676,415
Fee and commission expense	5	(85,585)	(95,669)
Net fee and commission income	5	**576,618**	**580,746**
Dividend income	6	**48,867**	**8,912**
Net income on trading financial instruments and revaluation	7	**382,105**	**346,999**
Net gain on debt investment securities	8	**229,922**	**305,339**
Net gain on capital investment instruments	9	**6,429**	**1,844**
Net gain on hedge accounting	10	**(379)**	**2,050**
Other operating income	11	56,274	50,227
Other operating expenses	11	(41,363)	(51,999)
Net other operating income	11	**14,911**	**(1,772)**
General administrative expenses	12	**(1,178,686)**	**(1,271,187)**
Depreciation expense	13	**(66,318)**	**(55,754)**
Profit/loss on sale of other assets	14	**6,384**	**(124)**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	15	**18,272**	**34,138**
Profit before tax		**1,187,691**	**1,173,316**
Income tax expense	16	**(216,268)**	**(238,534)**
Net profit		**971,423**	**934,782**
Weighted average number of ordinary shares (in pcs)	17	130,659,600	130,659,600
Net earnings per share (PLN)	17	7.43	7.15
Diluted net earnings per share (PLN)	17	7.43	7.15

Statement of comprehensive income

For the period PLN'000	Note	2014	2013
Net profit		**971,423**	**934,782**
Other comprehensive income which may be reclassified to the income statement:			
Net valuation of financial assets available-for-sale	18	95,812	(300,769)
Other comprehensive income which may not be reclassified to the income statement:			
Net actuarial losses on specific services program valuation	18	(5,656)	-
The other comprehensive income after tax		**90,156**	**(300,769)**
Total comprehensive income for the period		**1,061,579**	**634,013**

Explanatory notes on pages 11-92 are an integral part of the annual financial statements.

Statement of financial position

PLN'000 As at	Note	31.12.2014	31.12.2013
ASSETS			
Cash and balances with Central Bank	19	1,522,949	778,464
Amounts due from banks	20	2,065,614	3,539,922
Financial assets held-for-trading	21	12,721,335	5,746,799
Debt securities available-for-sale	22	14,435,099	17,616,041
Equity investments	23	240,417	247,483
Amounts due from customers	24	16,545,902	14,811,383
Tangible fixed assets	25	347,855	355,655
Intangible assets	26	1,386,118	1,415,204
Receivables due to current income tax		10,358	72,837
Deferred income tax asset	28	157,815	204,035
Other assets	29	167,802	161,196
Non-current assets held-for-sale	30	2,113	12,738
Total assets		**49,603,377**	**44,961,757**
LIABILITIES			
Amounts due to banks	31	5,004,190	6,172,957
Financial liabilities held-for-trading	21	6,770,922	4,196,896
Hedging derivates	32	-	24,710
Amounts due to customers	33	29,803,545	26,634,357
Provisions	34	26,188	88,701
Other liabilities	35	649,947	622,914
Total liabilities		**42,254,792**	**37,740,535**
EQUITY			
Share capital	37	522,638	522,638
Supplementary capital	37	2,944,585	2,944,585
Revaluation reserve	37	52,622	(43,190)
Other reserves	37	2,857,317	2,862,407
Retained earnings		971,423	934,782
Total equity		**7,348,585**	**7,221,222**
Total liabilities and equity		**49,603,377**	**44,961,757**

Explanatory notes on pages 11-92 are an integral part of the annual financial statements.

Statement of changes in equity

PLN '000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
As at 1,January,2014	**522,638**	**2,944,585**	**(43,190)**	**2,862,407**	**934,782**	**7,221,222**
Total comprehensive income, including:	-	-	95,812	(5,656)	971,423	1,061,579
net profit	-	-	-	-	971,423	971,423
valuation of financial assets available-for-sale	-	-	95,812	-	-	95,812
net actuarial losses on specific services program valuation	-	-	-	(5,656)	-	(5,656)
Dividends paid	-	-	-	-	(934,216)	(934,216)
Transfer to capital	-	-	-	566	(566)	-
As at 31 December 2014	**522,638**	**2,944,585**	**52,622**	**2,857,317**	**971,423**	**7,348,585**

Note:18, 37

PLN'000	Share capital	Supplementary capital	Revaluation reserves	Other reserves	Retained earnings	Total equity
As at 1 January 2013	**522,638**	**2,944,585**	**257,579**	**2,610,228**	**1,008,698**	**7,343,728**
Total comprehensive income,including:	-	-	(300,769)	-	934,782	634,013
net profit	-	-	-	-	934,782	934,782
valuation of financial assets available-for-sale	-	-	(300,769)	-	-	(300,769)
Dividends paid	-	-	-	-	(756,519)	(756,519)
Transfer to capital	-	-	-	252,179	(252,179)	-
As at 31 December 2013	**522,638**	**2,944,585**	**(43,190)**	**2,862,407**	**934,782**	**7,221,222**

Note: 18, 37

Explanatory notes on pages 11-92 are an integral part of the annual financial statements.

Cash flow statement

PLN'000 For the period	2014	2013
A. Cash flows from operating activities		
I. Net profit	**971,423**	**934,782**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**(478,287)**	**(1,420,908)**
Current and deferred income tax recognized in income statement	216,268	238,534
Depreciation expense	66,318	55,754
Net impairment due to financial assets value loss	(18,361)	(35,812)
Net provisions (recoveries)	(3,950)	72,778
Net interest income	(1,149,566)	(1,222,125)
Dividend income from subordinated entities	(43,910)	(4,729)
Profit/loss on sale of investments	(6,497)	138
Other adjustments	(2,951)	2,135
Cash flows from operating income before changes in operating assets and liabilities	**(942,649)**	**(893,327)**
Change in operating assets (excl. cash and cash equivalents)	**(3,992,889)**	**(2,618,136)**
Change in amounts due from banks	1,342,186	(1,923,465)
Change in amounts due from customers	(1,727,020))	991,882
Change in debt securities available-for-sale	3,346,747	(2,791,754)
Change in equity investments available-for-sale	7,264	4,715
Change in financial assets held-for-trading	(6,955,427)	1,045,827
Change in assets available-for-sale	(1,174)	(185)
Change in other assets	(5,465)	54,844
Change in operating liabilities (excl. cash and cash equivalents)	**4,457,251**	**2,090,555**
Change in amounts due to banks	(1,233,188)	3,971,065
Change in amounts due to customers	3,179,243	(244,883)
Change in liabilities held-for-trading	2,574,026	(1,649,508)
Change in amounts due to hedging derivatives	(24,710)	24,710
Change in other liabilities	(38,120)	(10,829)
Interest received	**1,422,811**	**1,483,088**
Interest paid	**(332,369)**	**(399,715)**
Income tax paid	**(128,783)**	**(278,740)**
III. Net cash flows from operating activities	**1,454,795**	**318, 507**
B. Cash flows from investing activities		
Purchase of tangible fixed assets	(47,097)	(28,173)
Disposal of tangible fixed assets	16,955	421
Purchase of intangible assets	(6,775)	(62,316)
Disposal of shares in subsidiaries	-	4,943
Disposal of fixed assets available-for-sale	16,452	88
Dividends received	44,009	4,630
Other investing inflows	-	438
Net cash flows from investing activities	**23,544**	**(79,969)**
C. Cash flows from financing activities		
Dividends paid	(934,216)	(756,519)
Inflows due to long-term loans from financial sector entities	197,578	129,039
Repayment of long-term loans from financial sector entities	(141,934)	(23,111)
Net cash flows from financing activities	**(878,572)**	**(650,591)**
D. Exchange rates differences resulting from cash and cash equivalents conversion	**12,920**	**(1,581)**
E. Net change in cash and cash equivalents	**612,687**	**(413,634)**
F. Cash at the beginning of the period	**1,120,157**	**1,533,791**
G. Cash at the end of the period (see Note 46)	**1,732,844**	**1,120,157**

Explanatory notes on pages 11-92 are an integral part of the annual financial statements.

Explanatory notes to the financial statements

1. General information about the Bank

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

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

The Bank was set up for an unspecified period of time.

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

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

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

The Bank is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients on domestic and foreign markets.

2. Significant accounting policies

Declaration of conformity

The annual unconsolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union and with other applicable regulations.

The annual unconsolidated financial statements of the Bank have been approved by the Management Board of the Bank for publication on 13 March 2015. The financial statements will be finally approved by the General Meeting of the Bank.

In addition, the annual consolidated financial statements of the Capital Group have been prepared in accordance with International Financial Reporting Standards adopted by the European Union and with other applicable regulations.

The annual consolidated financial statements were approved by the Management Board of the Bank for publication on 13 March 2015. The financial statements will be finally approved by the General Meeting of the Bank.

Basis of preparation

These annual financial statements of the Bank have been prepared for the period from 1 January 2014 to 31 December 2014 and for the statements of financial situation as at 31 December 2014. The comparable financial data are presented for the period from 1 January 2013 to 31 December 2013. and for the statements of financial situation as at 31 December 2013.

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

The financial statements have been prepared on the fair-value-basis for financial assets and financial liabilities measured at fair value including derivatives and available-for-sale financial assets with the exception of assets and liabilities whose fair value cannot be estimated in a reliable way. Other assets and liabilities are presented at amortized cost (loans and receivables, financial liabilities other than measured at fair value in the income statement) or at cost decreased by impairment losses.

The principal accounting policies, used when preparing these financial statements, were presented below. These policies were applied in the presented years continuously,

Standards and interpretations approved or awaiting the European Union's approval that can have influence on financial statements of the Bank:

- IFRS 9 "Financial Instruments" , awaiting EU's endorsement, was published by IASB on 24th July 2014 and is the final version superseding the previously published ones. The new standard implements changes in relation to IAS 39 in respect of the classification and measurement of financial assets and financial liabilities, impairment methodology that will focus on expected credit risk losses, and hedge accounting. IFRS 9 does not comprise hedge accounting of portfolio of financial assets or financial liabilities. The standard will be in force from the 1st January 2018. The application of the standard will influence the presentation and measurement of the financial instruments. The Bank is in the process of estimation of the potential impact of the standard on its financial statement.
- IFRIC 21 "Levies" as an interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The interpretation explains that the obliging activity, causing the rise of the liability to bear the levies, is the activity described in the proper regulations conditioning the payment of levies; The interpretation will be mandatory for the Bank since 1 of January 2015. It is not expected to have any significant influence on Bank's financial report and annual financial result.

Other standards, amendments to the standards and IFRIC interpretations recently endorsed including awaiting the European Union's approval are either not relevant to the Bank's activity or would not have a material impact on the financial statements.

In order to prepare financial statements in accordance with IFRS, the management of the Bank has to make judgments, estimates and assumptions that have an impact on the amounts presented in the financial statements.

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

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

Foreign currency

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

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

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

The average exchange rate of the currency determined by the Governor of the National Bank of Poland ("NBP") prevailing at the date of preparation of the statement of financial position is applied for foreign exchanges.

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

PLN		31 December 2014	31 December 2013
1	USD	3.5072	3.0120
1	CHF	3.5447	3.3816
1	EUR	4.2623	4.1472

Financial assets and liabilities

Classification

The Bank classifies its financial instruments into the following categories:

- financial assets or financial liabilities at fair value through profit or loss;
- loans and receivables;
- financial assets available-for-sale;
- other financial liabilities.

In the reporting period, the Bank did not classify assets to investments held-to-maturity. The Bank classifies financial assets to particular categories on the date of their first recognition.

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

This category has two sub-categories: (i) financial assets and liabilities held-for-trading and (ii) financial assets designated at fair value through profit or loss at initial recognition.

Assets or liabilities are included in this category once they were purchased with the primary objective of selling or repurchasing to generate short-term profits, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of generating short-term profits, or when they are classified to this category at the management's discretion provided that they meet the criteria from IAS 39. The derivative instruments, excluding hedging instruments, and selected debt securities are also categorized as held-for-trading.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on the active market. They arise when the Bank provides funds to the debtor for any purpose except for the generation of short-term profits from trading in such loans or receivables. This category comprises, in the first instance, amounts due in respect of loans, purchased receivables and debt securities that are not quoted on the active market.

(c) Financial assets available-for-sale

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

(d) Other financial liabilities

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

Cash

Cash is cash in hand and receivables on current balances in banks, described in detail in note 46 "Cash flow statement".

Recognition and derecognition

Transactions of purchase or sale of financial assets at fair value through profit or loss and available-for-sale are recognized in the Bank's statement of financial position and derecognized at transaction settlement date, i.e., the date on which the Bank will receive or transfer the ownership right to assets. The rights and liabilities from a concluded transaction are measured at fair value from the transaction conclusion day to the transaction settlement day.
Loans and receivables are recognized at the time of mobilization of funds for the borrower.

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

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

Valuation

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

After initial recognition the Bank measures financial assets including derivatives that are assets at fair value without deducting transactional costs which it may incur in connection with the sale or disposal of assets except for loans and receivables which are measured at amortized cost using the effective interest rate method, and investments in equity instruments for which no quotations on the active market are available and whose fair value cannot be reasonably determined.

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

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

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

Interest accrued using the effective interest rate method is recognized through profit or loss. Dividends on available-for-sale equity investments are recognized in profit and loss when the entity's right to receive payment is established.

The fair value of shares in companies other than subsidiaries and associates listed on the active market is based on their current purchase price. If the market for specific financial assets is inactive (this also applies to unlisted securities), the Bank determines fair value using appropriate valuation techniques.

Derivative instruments

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

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

Hedge accounting

The Bank designates certain derivatives for hedging positions in hedge accounting. The Bank applies fair value hedge accounting provided that meeting the criteria from IAS 39 – "Financial Instruments: Recognition and Measurement".

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

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

Offsetting financial instruments

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

Cash pooling

The Bank offers its clients cash management services which consolidate balances within the structure of related accounts ("cash pooling"). Such transactions net the positive and negative balances of participants' current accounts on a designated account of the entity which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed. Cash pooling transactions are presented on a net basis only if they meet the requirements of IAS 39 regarding derecognition of financial assets and liabilities from the statement of financial position. Accounts receivable presented on a gross basis are presented as Amounts due from customers and accounts payable as customers' deposits.

Repurchase and resale agreements, repo / reverse repo transactions

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

Impairment of assets measured at amortized cost

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

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

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

The losses expected as a result of future events regardless of their probability are not recognized.

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

Forbearance

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

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

Impairment allowances for incurred but not recognized credit losses

The Bank creates impairment allowances for incurred but not recognized credit losses ("IBNR"). The IBNR impairment allowances process covers all receivables for which no evidence of impairment was found or for which such evidence was found but the individual assessment of possible impairment did not confirm the need to write them down. The IBNR impairment allowances reflect the level of a credit loss incurred but not reported, which will be identified at the level of exposure in the period of loss recognition adopted by the Bank. The IBNR impairment allowances are calculated using statistical parameters for the Banks of assets combined in portfolios having similar credit risk characteristics. In the financial statements, the Bank corrects credit exposure with the value of the IBNR impairment allowances.

Impairment allowances for individually significant assets

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

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

Impairment allowances for individually not significant assets

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

Impairment write-off for amounts due from banks and customers, allowances for impairment of securities and other assets adjust the value of particular asset categories. Provisions for contingent commitments are shown in the liabilities section “Provisions.”

Impairment of financial assets available-for-sale

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

Impairment of financial assets measured at cost

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

Impairment of assets other than financial assets

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

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

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

Calculation of recoverable amount

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

Reversal of revaluation write-offs

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

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

Equity investments – shares in subsidiaries

Subsidiaries – definition

Subsidiaries are all entities controlled by the Bank. Control exists when the Bank has power, directly or indirectly, to govern the financial and operating policies of an entity to obtain financial benefits from its activities. Control is usually connected with the possession of a majority of votes on governing bodies.

Subsidiaries - recognition and measurement

Investments in subsidiaries in the Bank's separate financial statements are recognized using the cost method in accordance with IAS 27. The cost method is a method of accounting for an investment whereby the investment is recognized at cost.

Equity investments – shares in other entities

Shares in entities other than dependent entities are classified as financial assets available-for-sale.

Goodwill

In the financial statements of the Bank, goodwill represents the difference between the cost of the acquisition and the fair value of the Bank's interest in identifiable assets, liabilities and contingent liabilities acquired at the business combination date. Goodwill is included in intangible assets. Goodwill is stated at cost minus any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment. In respect of associates, goodwill is included in the carrying amount of the investment in the associate.
Profits or losses on the disposal of a subsidiary or an associate include the carrying value of goodwill allocated to the entity sold.

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

Property and equipment and intangible assets (excluding goodwill)

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

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

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2014.

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

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

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

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

Property and equipment includes rights to perpetual usufruct of land.

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

Employee benefits

Short-term employee benefits

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

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

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

Share-based payments

Within the equity compensation plans the selected employees get awards under stock option programs based on stock options granted on Citigroup common stock (SOP), under stock award programs based on shares of Citigroup common stock in the form of deferred stock (CAP) and also under stock award programs based on phantom shares of Bank Handlowy w Warszawie S.A.

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

Long-term employee benefits

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

A component of variable remuneration granted to the Management Board and to the persons holding the managerial positions, having a significant impact on the Bank’s risk profile, is also the deferred cash prize described in detail in Note 49 “Employee benefits”.

Defined contribution plans

The Bank enables its employees to join a pension plan, which is described in detail in Note 49. The Bank pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions; hence, this is a defined contribution plan in accordance with IAS 19 (“Employee Benefits”). Contributions are recognized as an expense in the related period.

Provisions

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

Restructuring provision

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

Equity

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

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

Accruals and prepayments

The Bank records accruals and prepayments of expenses primarily in relation to the Bank’s overhead expenses in reporting periods to which they relate.

Calculating net income

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

Interest income and interest expenses

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

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

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

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

Penalty interests resulting from income tax exposure are included in “Other operational income” or “Other operational expenses” in the income statement.

Fee and commission income and expenses

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

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

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

Commissions for services rendered and for executing significant transactions are recognized in the income statement, in proportion to the completion of the services rendered, or as a single amount after completing the rendering of a service, respectively and are shown in commission income.

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

Income and expense from distribution of insurance products

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

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

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

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

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

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

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

Hedge accounting income

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

Other operating income and expenses

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

Income tax

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

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

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

Non-current assets held-for-sale

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

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

Accounting estimates and judgments

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

Fair value of derivatives

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

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

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

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

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

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

Impairment of loans

At each balance sheet date, the Bank assesses whether there is an objective evidence of impairment of loan exposures. If so, the Bank records a write-off equal to the difference between the carrying value and the estimated present value of the future cash flows from a given loan exposure. The Bank applies collective analysis of financial assets in respect of which evidence of impairment has not been identified individually, or in spite of finding the evidence of impairment, the individual assessment of the given asset has not indicated the necessity of recording an impairment write-off. For the purpose of collective evaluation of impairment, the credit exposures are grouped in order to ensure the uniformity of credit risk attached to the given portfolio. For the purpose of calculation of the amount to be provisioned against balance sheet exposures analyzed collectively the Bank has applied, among others, the probability of default (PD) and loss resulting from default (LGD).

The Bank uses estimates to determine whether there is objective evidence of impairment, calculate the present value of future cash flows and estimate write-off group method. Estimates may include observable data indicating an adverse change in macroeconomic conditions or standing of borrower's qualified to a particular portfolio. If necessary, historical loss experience may be adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based.

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

Impairment of goodwill

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

Employee benefits

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

3. Segment reporting

Information on segment reporting is presented in Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2014, which have been approved by the Management Board of the Bank for publication on the same date as Annual Unconsolidated Financial Statements of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2014, i.e. 13 March 2015.

4. Net interest income

PLN'000	**2014**	**2013**
Interest and similar income due to:		
Balances with Central Bank	25,017	26,171
Amounts due from banks	60,270	45,061
Amounts from customers, including:	936,372	1,024,579
financial sector entities	18,381	37,567
non-financial sector entities	917,991	987,012
Debt securities available-for-sale	363,255	446,389
Debt securities held-for-trading	93,537	85,770
	1,478,451	**1,627,970**
Interest expense and similar charges due to:		
Balances with Central Bank	-	(1)
Amounts due to banks	(39,220)	(47,647)
Amounts due to financial sector entities	(89,294)	(103,982)
Amounts due to non-financial sector entities	(194,961)	(246,139)
Loans and advances received	(2,768)	(2,561)
Derivatives in hedge accounting	(2,642)	(5,515)
	(328,885)	**(405,845)**
Net interest income	**1,149,566**	**1,222,125**

Net interest income for 2014 includes interest accrued on impaired loans of PLN 4,125 thousand (for 2013: PLN 12,109 thousand).

5. Net fee and commission income

PLN'000	2014	2013
Fee and commission income:		
Insurance and investment products (agency)	145,495	140,595
Payment and credit cards	205,391	233,716
Payment services	114,167	105,892
Custody services	111,433	104,521
Charges from cash loans	3,228	5,417
Cash management services on customers' accounts	27,617	26,007
Granted guarantee liabilities	14,991	14,090
Granted financial liabilities	6,226	5,343
Other	33,655	40,834
	662,203	**676,415**
Fee and commission expense:		
Payment and credit cards	(50,248)	(57,944)
Fees paid to the National Depository for Securities (KDPW)	(20,473)	(21,060)
Brokers fees	(4,073)	(4,595)
Other	(10,791)	(12,070)
	(85,585)	**(95,669)**
Net fee and commission income	**576,618**	**580,746**

The net fee and commission income for 2014 comprises commission income (other than income covered by the calculation of the effective interest rate process) related to financial assets and liabilities not measured at fair value through profit or loss in the amount of PLN 211,693 thousand (for 2013: PLN 240,269 thousand) and commission expenses in the amount of PLN 50,248 thousand (for 2013: PLN 57,944 thousand).

6. Dividend income

Dividend income amounted to PLN 48,867 thousand in 2014 (2013: PLN 8,912 thousand) and is related to the Bank's equity investments. The total amount of dividend income includes dividends received and due from the Bank's subsidiaries - PLN 43,910 thousand (in 2013: PLN 4,729 thousand). The remaining amount of dividends was received from entities with no control equity interest of the Bank.

7. Net income on trading financial instruments and revaluation

PLN'000	2014	2013
Net income on financial instruments measured at fair value through profit of loss from:		
Debt instruments	112,538	31,312
Derivative instruments, including:	(22,690)	28,999
Interest rate	(22,964)	28,237
	89,848	**60,311**
Net profit on foreign exchange		
Net profit on foreign currency derivatives	292,999	32,509
Revaluation	(742)	254,179
	292,257	**286,688**
Net income on trading financial instruments and revaluation	**382,105**	**346,999**

A movement in (net) recovery resulting from counterparty credit risk on derivative transactions in the amount of PLN 10,935 thousand (in 2013, net recovery amounted to PLN 28,868 thousand) is included in net income on trading financial instruments and revaluation for 2014.

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

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

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

8. Net gain on debt investment securities

PLN'000	**2014**	**2013**
Net gain from debt securities available-for-sale	**229,922**	**305,339**

9. Net gain on capital investment instruments

PLN'000	**2014**	**2013**
Net gain from capital investment instruments available-for-sale	**6,429**	**1,844**

10. Hedge accounting income

PLN'000	**2014**	**2013**
Fair value of securities hedge accounting		
Net gain on hedged transaction valuation	25,987	26,474
Net gain on hedging transaction valuation	(26,366)	(24,424)
Hedge accounting income	**(379)**	**2,050**

Detailed information on hedge accounting applied in the Bank is presented in the further part of these Statements in note 40.

11. Net other operating income

PLN'000	**2014**	**2013**
Other operating income		
Data processing for related parties	13,834	17,000
Rental of office space	10,029	8,126
Reversal of provision on litigations	5,679	
Other	26,732	25,101
	56,274	**50,227**
Other operating expenses		
Amicable procedure and debt collection expenses	(20,480)	(20,197)
Fixed assets held-for-sale valuation	(1,152)	-
Fixed assets held-for-sale maintenance cost	(592)	(399)
Creation of provisions for litigations (net)	-	(9,218)
Other	(19,139)	(22,185)
	(41,363)	**(51,999)**
Net other operating income	**14,911**	**(1,772)**

12. General administrative expenses

PLN'000	2014	2013
Staff expenses		
Remuneration costs, including:	(390,756)	(478,410)
Provisions for retirement allowances	(22,999)	(25,131)
Bonuses and rewards, including:	(105,564)	(116,972)
Payments related to own equity instruments	(14,861)	(35,070)
Rewards for long time employment	(779)	(726)
Social insurance costs	(65,467)	(68,973)
	(561,787)	**(664,355)**
Administrative expenses		
Telecommunication fees and hardware purchases	(168,021)	(184,838)
Costs of external services, including advisory, audit, consulting services	(70,833)	(59,987)
Building maintenance and rent costs	(99,360)	(101,033)
Advertising and marketing costs	(24,951)	(23,146)
Cash management service, KIR service and other transactional costs	(50,831)	(47,600)
Costs of external services related to the distribution of banking products	(63,933)	(55,249)
Postal services, office supplies and printmaking costs	(13,675)	(18,733)
Training and education costs	(3,888)	(7,025)
Banking supervisory expenses	(3,201)	(1,173)
Other expenses	(118,206)	(108,048)
	(616,899)	**(606,832)**
General administrative expenses, total	**(1,178,686)**	**(1,271,187)**

Staff expenses in 2014 include PLN 23,633 thousand of remuneration and bonuses paid and payable to current and former members of the Management Board (in 2013: PLN 37,040 thousands).

Remuneration costs of the period from 1 January 2013 to 31 December 2013 include the cost of started in 2013 workforce restructuring at PLN 55,160 thousand included in remuneration costs position and restructuring retail branch network costs at PLN 7,193 thousand, included in rents and building maintance costs position. Total amount of restructuring provision was PLN 62,353 thousand.

Until 31 December 2014 workforce restucturing provision was fully used: in 2014 at PLN 48,771 thousand and PLN 1,893 thousand in 2013 and the rest was reversed in amount of PLN 4,496 thousand (look note 34).

Until 31 December 2014 branch network restructuring provision was used: in 2014 in amount of PLN 9,793 thousand and in 2013 at PLN 159 thousand, and additional PLN 6,773 thousand was added (see note 34)

13. Depreciation expense

PLN'000	2014	2013
Depreciation of property and equipment	(31,543)	(33,269)
Amortization of intangible assets	(34,775)	(22,485)
Depreciation expense, total	**(66,318)**	**(55,754)**

14. Sale of other assets

PLN'000	2014	2013
Profits on:		
Sale of property and equipment and intangible fixed assets	745	424
Sale of fixed assets held-for-sale	5,803	88
	6,548	**512**
Losses on:		
Sale of property and equipment	-	(47)
Sale of assets available for sale	(164)	-
Sale of shares in subsidiaries	-	(589)
	(164)	**(636)**
ale of other assets	**6,384**	**(124)**

15. Net impairment allowances for financial assets and net provisions for financial liabilitiesand guarantees granted

PLN'000	2014			
	Corporate customers	Retail customers	Banks	Total
Impairment allowances for financial assets:				
Amounts due from customers	(94,028)	(115,753)	(4,503)	(214,284)
Amounts due from matured transactions in derivative instruments	(302)	-	-	(302)
Other	(5,663)	1,537	-	(4,126)
	(99,993)	**(114,216)**	**(4,503)**	**(218,712)**
Reversals of impairment allowances for financial assets:				
Equity investments	109	-	-	109
Amounts due from customers	94,249	118,613	2,803	215,665
Amounts due from matured transactions in derivative instruments	690	-	-	690
Recovery on sale of debt, previously written-off	792	19,816	-	20,608
	95,840	**138,429**	**2,803**	**237,072**
Net impairment due to financial assets value losses	**(4,153)**	**24,213**	**(1,700)**	**18,360**
Establish of provisions for granted financial and guarantee commitments	(30,666)	(435)	-	(31,101)
Release of provisions for granted financial and guarantee commitments	30,977	36	-	31,013
Net impairment due to provisions for granted financial and guarantee commitments	**311**	**(399)**	**-**	**(88)**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	**(3,842)**	**23,814**	**(1,700)**	**18,272**

PLN'000	2013			
	Corporate customers	Retail customers	Banks	Total
Impairment write-offs of financial assets:				
Equity investments	(328)	-	-	(328)
Amounts due from customers	(97,858)	(136,091)	(2,697)	(236,646)

PLN'000	2013			
	Corporate customers	**Retail customers**	**Banks**	**Total**
Amounts due from matured transactions in derivative instruments	(6,374)	-	-	(6,374)
Other	(10,133)	(1,976)	-	(12,109)
	(114,693)	**(138,067)**	**(2,697)**	**(255,457)**
Reversals of impairment write-offs of financial assets:				
Amounts due from customers	86,138	167,916	1,661	255,715
Amounts due from matured transactions in derivative instruments	1,560	-	-	1,560
Recovery on sale of debt, previously written-off	-	33,994	-	33,994
	87,698	**201,910**	**1,661**	**291,269**
Net impairment due to financial assets value losses	**(26,995)**	**63,843**	**(1,036)**	**35,812**
Establishment of provisions for granted financial and guarantee commitments	(32,514)	(14)	-	(32,528)
Release of provisions for granted financial and guarantee commitments	30,219	588	47	30,854
Net impairment due to provisions for granted financial and guarantee commitments	**(2,295)**	**574**	**47**	**(1,674)**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	**(29,290)**	**64,417**	**(989)**	**34,138**

16. Income tax expense

Recognized in the income statement

PLN'000	**2014**	**2013**
Current tax		
Current year	(200,095)	(147,853)
Adjustments for prior years	8,922	(3,272)
	(191,173)	**(151,125)**
Deferred tax		
Origination and reversal of temporary differences	(25,072)	(87,320)
Movement in receivables arising from tax deductions	(23)	(89)
	(25,095)	**(87,409)**
Total income tax expense in income statement	**(216,268))**	**(238,534)**

Reconciliation of effective tax rate

PLN'000	**2014**	**2013**
Profit before tax	1,187,691	1,173,316
Income tax at the domestic corporate tax rate of 19%	(225,661)	(222,930)
Impairment write-offs not constituting deductible expenses	(10,227)	(9,328)
Deductible income not recognized in the income statement	(323)	(381)
Non taxable income	9,285	1,693
Technological relier	9,637	-
Other permanent differences, including other non-deductible expenses	1,021	(7,588)
Total tax expenses	**(216,268)**	**(238,534)**
Effective tax rate	**18.21%**	**20.33%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2014 is related to debt and equity instruments available-for-sale and additionally in 2014 with valuation of specific services program and amounted to PLN (11,017) thousand (31 December 2013: PLN 10,131 thousand).

17. Earnings per share

As at 31 December 2014, earnings per share amounted to PLN 7.43 (31 December 2013: PLN 7.15).

The calculation of earnings per share at 31 December 2014 was based on profit attributable to shareholders of PLN 971,423 thousand (31 December 2013: PLN 934,782 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2014 of 130,659,600 (31 December 2013: 130,659,600).

The Bank does not have any ordinary shares that may have a dilution impact.

18. Changes in other comprehensive income

Deferred income tax and reclassification included in other comprehensive income concern the valuation of financial assets available-for-sale (AFS) recognized in the revaluation reserve.

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2014	**(53,321)**	**10,131**	**(43,190)**
AFS valuation change	348,208	(66,159)	282,049
Valuation of sold AFS moved to income statement	(229,922)	43,685	(186,237)
Net actuarial losses on specific services program valuation	(6,982)	1,326	(5,656)
As at 31 December 2014	**57,983**	**(11,017)**	**46,966**

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2013	**317,999**	**(60,420)**	**257,579**
AFS valuation change	(65,981)	12,536	(53,445)
Valuation of sold AFS moved to income statement	(305,339)	58,015	(247,324)
As at 31 December 2013	**(53,321)**	**10,131**	**(43,190)**

19. Cash and balances with the Central Bank

PLN'000	31.12.2014	31.12.2013
Cash in hand	495,408	532,142
Current balances with Central Bank	1,027,541	246,322
Cash and balances with the Central Bank, total	**1,522,949**	**778,464**

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

Declared balance of obligatory reserve amounted as at 31 December 2014 PLN 1,105,461 thousand (31 December 2013: PLN 1,076,336 thousand).

20. Amounts due from banks

PLN'000	31.12.2014	31.12.2013
Current accounts	210,353	342,001
Deposits	406,948	614,985
Loans and advances	359,072	347,686
Unlisted securities	28,456	-
Liabilities due to purchased securities with repurchase agreement	681,694	1,841,873
Deposits pledged as collateral of derivative instruments and stock market transactions	381,971	394,188
Other receivables	-	362
Total gross amount	**2,068,494**	**3,541,095**
Impairment write-offs	(2,880)	(1,173)
Total net amounts due from banks	**2,065,614**	**3,539,922**

The movement in amounts due from banks is as follows:

PLN'000	2014	2013
As at 1 January	**(1,173)**	**(126)**
Increases (due to):		
Write-offs creation	(4,503)	(2,697)
Other	(7)	(11)
Decreases (due to):		
Write-offs release	2,803	1,661
As at 31 December	**(2,880)**	**(1,173)**

As at 31 December 2014 and 31 December 2013, recognized impairment on amounts due from banks concerned incurred but not reported (IBNR) write-offs.

21. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN'000	31.12.2014	31.12.2013
Debt securities held-for-trading		
Bonds and notes issued by:		
Banks*	137,770	114,137
Non financial units	14,799	-
Government	6,944,306	2,101,536
	7,096,875	**2,215,673**
Including:		
Listed on active market	6,284,719	1,544,888
Unlisted on active market	812,156	670,785
Derivative financial instruments	**5,624,460**	**3,531,126**
Financial assets held-for-trading, total	**12,721,335**	**5,746,799**

*As at 31 December 2014, the securities (bonds) issued by banks in the amount of PLN 2 thousand are covered by Government guarantees (31 December 2013: PLN 114,137 thousand).

Financial liabilities held-for-trading

PLN'000	31.12.2014	31.12.2013
Short positions in financial assets	1,005,545	481,601
Derivative financial instruments	5,765,377	3,715,295
Financial liabilities held-for-trading, total	**6,770,922**	**4,196,896**

As at 31 December 2014 and 31 December 2013, the Bank did not hold any financial assets and liabilities designated for measurement at fair value through profit or loss at initial recognition.

As at 31 December 2014, financial assets from derivatives transactions include impairments regarding the valuation adjustments due to individual counterparty credit risk for outstanding transactions of PLN 4,526 thousand (31 December 2013: PLN 10,065 thousand).

Derivative financial instruments as at 31 December 2014

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**40,543,483**	**72,737,320**	**137,373,801**	**26,354,969**	**277,009,573**	**5,225,862**	**5,298,847**
FRA	24,750,000	16,070,000	8,750,000	-	49,570,000	33,155	24,400
Interest rate swaps (IRS)	11,814,453	51,697,423	114,835,056	21,507,411	199,854,343	4,799,519	4,911,757
Currency-interest rate swaps (CIRS)	3,911,001	4,969,897	13,179,080	4,847,558	26,907,536	388,329	357,596
Interest rate options	-	-	609,665	-	609,665	4,859	4,902
Futures*	68,029	-	-	-	68,029	-	192
Currency instruments	**17,589,669**	**8,563,334**	**3,827,361**	**62,766**	**30,043,130**	**367,745**	**434,964**
FX forward	1,930,755	1,185,365	179,438	62,766	3,358,324	45,669	82,794
FX swap	14,311,477	5,419,599	1,923,420	-	21,654,496	273,103	303,479
Foreign exchange options	1,347,437	1,958,370	1,724,503	-	5,030,310	48,973	48,691
Securities transactions	**889,035**	**-**	**-**	**-**	**889,035**	**1,234**	**1,978**
Securities purchased / sold pending delivery	889,035	-	-	-	889,035	1,234	1,978
Commodity transactions	**259,056**	**227,009**	**-**	**-**	**486,065**	**29,619**	**29,588**
Swaps	192,385	227,009	-	-	419,394	29,619	29,588
Options	66,671	-	-	-	66,671	-	-
Total derivative instruments	**59,281,243**	**81,527,663**	**141,201,162**	**26,417,735**	**308,427,803**	**5,624,460**	**5,765,377**

**Exchange-traded products*

Derivative financial instruments as at 31 December 2013

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**29,279,105**	**48,074,990**	**128,382,483**	**19,708,033**	**225,444,611**	**3,245,616**	**3,204,747**
FRA	14,600,000	16,330,000	2,000,000	-	32,930,000	7,861	9,444
Interest rate swaps (IRS)	11,634,619	28,198,925	111,416,255	15,824,033	167,073,832	2,909,725	2,938,509
Currency-interest rate swaps (CIRS)	2,468,750	3,546,065	14,092,176	3,884,000	23,990,991	320,374	250,758
Interest rate options	82,944	-	874,052	-	956,996	5,540	5,833
Futures*	492,792	-	-	-	492,792	2,116	203
Currency instruments	**16,993,509**	**6,265,122**	**5,075,209**	**6,766**	**28,340,606**	**270,896**	**495,592**
FX forward	3,383,131	1,341,091	566,104	6,766	5,297,092	24,306	93,644
FX swap	12,006,180	1,947,128	4,130,204	-	18,083,512	171,150	326,782
Foreign exchange options	1,604,198	2,976,903	378,901	-	4,960,002	75,440	75,166
Securities transactions	**356,254**	**-**	**-**	**-**	**356,254**	**1,113**	**1,520**
Securities purchased / sold pending delivery	356,254	-	-	-	356,254	1,113	1,520

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Commodity transactions	**496,422**	**479,356**	**-**	**-**	**975,778**	**13,501**	**13,436**
Swap	1,092	-	-	-	1,092	9	9
Options	495,330	479,356	-	-	974,686	13,492	13,427
Total derivative instruments	**47,125,290**	**54,819,468**	**133,457,692**	**19,714,799**	**255,117,249**	**3,531,126**	**3,715,295**

22. Debt securities available-for-sale

PLN'000	31.12.2014	31.12.2013
Bonds and notes issued by:		
Central bank	4,499,750	9,748,646
Other banks*	1,182,039	1,288,739
Government, including:	8,753,310	6,578,656
covered bonds in fair value hedge accounting	-	1,836,219
Debt securities available-for-sale, total	**14,435,099**	**17,616,041**
Including:		
Listed on active market instruments	7,606,151	6,177,716
Unlisted on active market instruments	6,828,948	11,438,325

The movement in debt securities available-for-sale is as follows:

PLN'000	2014	2013
As at 1 January	**17,616,041**	**15,003,003**
Increases (due to):		
Purchases	319,403,242	413,942,712
Revaluation	102,367	-
Foreign exchange differences	177,579	-
Depreciation of discount, premium and interest	147,476	251,687
Decreases (due to):		
Sale	(322,922,652)	(411,162,974)
Revaluation	-	(344,,902)
Foreign exchange differences	-	(14,457)
Amortization of discount, premium and interest	(88,954)	(59,028)
As at 31 December	**14,435,099**	**17,616,041**

*As at 31 December 2014, some of the securities (bonds) issued by other banks in the amount of PLN 266,542 thousand are covered by Government guarantees (31 December 2013: PLN 895,910 thousand).

23. Equity investments

PLN'000	31.12.2014	31.12.201
Shares in subsidiaries	244,588	244,665
Shares in other entities	19,331	35,619
Impairment	(23,502)	(32,801)
Equity investments, total	**240,417**	**247,483**
Including:		
Listed on active market instruments	960	872
Unlisted on active market instruments	239,457	246,611

The movement in equity investments is as follows:

PLN'000	Subsidiaries	Other entities	Total
As at 1 January 2014	**232,493**	**14,990**	**247,483**
Increases (due to):			
Revaluation	109	86	195
Decreases (due to):			
Sale*	-	(7,185)	(7,185)
Settlement due to subsidies	(76)	-	(76)
As at 31 December 2014	**232,526**	**7,891**	**240,417**

PLN'000	Subsidiaries	Other entities	Total
As at 1 January 2013	**238,792**	**19,649**	**258,441**
Increases (due to):			
Revaluation	-	56	56
Decreases (due to):			
Revaluation	(329)	-	(329)
Sale**	(5,532)	(4,715)	(10,247)
Settlement due to payments	(438)	-	(438)
As at 31 December 2013	**232,493**	**14,990**	**247,483**

* In 2014 there was a sell of :
- Shares in Kuźnia Polska S.A representing 5.20% of the shares in the capital and 5.20% of votes at the General Meeting. The balance value of sold shares amounted PLN 1,536 thousand
- Shares in Polski Koncern Mięsny DUDA S.A representing 4.52% of the share in the capital and 4.52% of votes at the General Meeting.The balance value of sold shares amounted PLN 5,649 thousand.

** In 2013 there was a sell of ;
- Shares in Elektromontaż Poznań S.A., representing 19.88% of the share in the capital and 19.88% of votes at the General Meeting of Shareholders, were sold. The balance value of sold shares amounted PLN 4,715 thousand.
- Shares in Handlowy Investmens II S.a.r.l., representing 80.97% of the share in the capital and 80.97% of votes at the General Meeting of Shareholders, were sold. The balance value of sold shares amounted PLN 5,532 thousand.

Financial information on subsidiaries, 31.12.2014

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	120,000	264,580	124,815	139,765	23,725	4,566
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	424,698	318,187	106,511	97,581	15,582
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	9,442	Entity under liquidation				
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary undertaking	100.00	31,055	43,808	405	43,403	2,243	268
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary undertaking	100.00	1,079	10,926	37	10,889	537	54
					232,526					

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	264,580	124,815	139,765	23,725	4,566

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2015, which is the entity's balance sheet date.

Financial information on subsidiaries, 31.12.2013

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	97.47	120,000	390,203	239,899	150,304	38,299	15,105
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary undertaking	100.00	70,950	458,834	338,500	120,334	102,706	31,726
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary undertaking	100.00	9,442	Entity under liquidation				
HANDLOWY INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary undertaking	100.00	30,946	43,451	316	43,135	9,650	(75)
HANDLOWY – INWESTYCJE Sp. z o.o. 2/	Warsaw	Investment activity	Subsidiary undertaking	100.00	1,155	10,950	38	10,912	199	76
					232,493					

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary undertaking	2.53	3,125	390,203	239,899	150,304	38,299	15,105

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities, except for PPH Spomasz Sp. Z o.o. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2014, which is the entity's balance sheet date.

24. Amounts due from customers

PLN'000	31.12.2014	31.12.2013
Amounts due from financial sector entities		
Loans and advances	341,517	514,560
Purchased receivables	-	2
Receivables subject to securities sale and repurchase agreements	599,899	100,789
Guarantee funds and deposits pledged as collateral	43,912	56,278
Total gross amount	**985,328**	**671,629**
Impairment write-offs	(19,082)	(19,128)
Total net amount	**966,246**	**652,501**
Amounts due from non-financial sector entities		
Loans and advances	14,142,915	12,921,969
Unlisted debt securities	1,118,225	718,003

PLN'000	31.12.2014	31.12.2013
Purchased receivables	1,006,797	1,416,240
Effected guarantees	1,824	2,173
Other receivables	27,451	3,340
Total gross amount	**16,297,212**	**15,061,725**
Impairment write-offs	(717,556)	(902,843)
Total net amount	**15,579,656**	**14,158,882**
Total net amounts due from customers	**16,545,902**	**14,811,383**

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

PLN'000	31.12.2014	31.12.2013
Portfolio impairment loss	(351,492)	(489,564)
Individual impairment loss	(314,809)	(348,042)
Incurred but not reported losses (IBNR)	(70,337)	(84,365)
Impairment loss, total	**(736,638)**	**(921,971)**

The movement in amounts due from customers is as follows:

	2014			2013		
PLN'000	Corporate customers	Retail customers	Total	Corporate customers	Retail customers	Total
As at 1 January	**(386,163)**	**(535,808)**	**(921,971)**	**(406,333)**	**(660,794)**	**(1,067,127)**
Increases (due to):						
Creation of write-offs	(94,028)	(115,753)	(209,781)	(97,858)	(136,091)	(233,949)
Creation of write-offs in the period for receivables in respect of matured derivative instrument transactions	-	-	-	(4,814)	-	(4,814)
Other	(2,201)	-	(2,201)	(1,044)	-	(1,044)
Decreases (due to):						
Restating receivables into write-offs	43,830	136,264	180,094	35,544	90,053	125,597
Reversal of write-offs on receivables on made derivatives transactions	388	-	388	-	-	-
Write-offs release	94,249	118,613	212,862	86,138	167,916	254,054
Sale of receivables	-	-	-	2,273	2,748	5,021
Other	2,605	1,366	3,971	(69)	360	291
As at 31 December	**(341,320)**	**(395,318)**	**(736,638)**	**(386,163)**	**(535,808)**	**(921,971)**

25. Tangible fixed assets

Movements of tangible fixed assets in 2014

PLN'000	Land and buildings	Vehicles	Other	Under construction	Total
Gross amount					
As at 1 January 2014	**636,331**	**121**	**319,170**	**4,327**	**959,949**
Increases:					
Purchases	604	-	8,281	38,212	47,097
Other increases	-	-	1,642	-	1,642
Decreases:					
Disposals	(27,255)	-	(1,151)	-	(28,406)
Liquidation	(33,117)	-	(31,817)	-	(64,934)

PLN'000	Land and buildings	Vehicles	Other	Under construction	Total
Classified to tangible fixed assets available for sale	(2,036)	-	(302)	-	(2,338)
Other decreases	-	-	(18)	-	(18)
Transfers	17,767	-	10,237	(32,390)	(4,386)
As at 31 December 2014	**592,294**	**121**	**306,042**	**10,149**	**908,606**
Depreciation and amortization					
As at 1 January 2014	**316,128**	**112**	**288,054**	**-**	**604,294**
Increases:					
Depreciation change for the period	16,559	3	14,981	-	31,543
Other increases	-	-	683	-	683
Decreases:					
Disposals	(11,097)	-	(1,047)	-	(12,144)
Liquidation	(31,286)	-	(31,164)	-	(62,450)
Classified to tangible fixed assets available for sale	(893)	-	(271)	-	(1,164)
Other decreases	-	-	(11)	-	(11)
As at 31 December 2014	**289,411**	**115**	**271,225**	**-**	**560,751**
Carrying amount					
As at 1 January 2014	320,203	9	31,116	4,327	355,655
As at 31 December 2014	**302,883**	**6**	**34,817**	**10,149**	**347,855**

Movements of tangible fixed assets in 2013

PLN'000	Land and buildings	Vehicles	Other	Under construction	Total
Gross amount					
As at 1 January 2013	**647,721**	**121**	**352,885**	**3,265**	**1,003,992**
Increases:					
Purchases	568	-	7,717	19,888	28,173
Other increases	-	-	353	-	353
Decreases:					
Disposals	-	-	(4,878)	-	(4,878)
Liquidation	(16,997)	-	(42,844)	-	(59,841)
Other decreases	-	-	(293)	-	(293)
Transfers	5,039	-	6,230	(18,826)	(7,557)
As at 31 December 2013	**636,331**	**121**	**319,170**	**4,327**	**959,949**
Depreciation and amortization					
As at 1 January 2013	**314,604**	**109**	**318,796**	**-**	**633,509**
Increases:					
Depreciation charge for the period	16,939	3	16,327	-	33,269
Other increases	-	-	313	-	313
Decreases:					
Disposals	-	-	(4,821)	-	(4,821)
Liquidation	(15,415)	-	(42,273)	-	(57,688)
Other decreases	-	-	(288)	-	(288)
As at 31 December 2013	**316,128**	**112**	**288,054**	**-**	**604,294**
Carrying amount					
As at 1 January 2013	333,117	12	34,089	3,265	370,483
As at 31 December 2013	**320,203**	**9**	**31,116**	**4,327**	**355,655**

26. Intangible assets

Movements of intangible assets in 2014

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2014	**1,245,976**	**735**	**395,712**	**18,242**	**6,027**	**1,666,692**
Increases:						
Purchases	-	-	1,026	-	5,749	6,775
Other increases	-	-	50	-	-	50
Decreases:						
Liquidation	-	-	(6,433)	-	-	(6,433)
Transfers	-	-	5,480	-	(5,987)	(507)
As at 31 December 2014	**1,245,976**	**735**	**395,835**	**18,242**	**5,789**	**1,666,577**
Depreciation and amortization						
As at 1 January 2014	**-**	**735**	**232,511**	**18,242**	**-**	**251,488**
Increases:						
Depreciation charge for the period	-	-	34,775	-	-	34,775
Other increases	-	-	393	-	-	393
Decreases:						
Liquidation	-	-	(6,166)	-	-	(6,166)
Other decreases	-	-	(31)	-	-	(31)
As at 31 December 2014	**-**	**735**	**261,482**	**18,242**	**-**	**280,459**
Carrying amount						
As at 1 January 2014	1,245,976	-	163,201	-	6,027	1,415,204
As at 31 December 2014	**1,245,976**	**-**	**134,353**	**-**	**5,789**	**1,386,118**

Movements of intangible assets in 2013

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2013	**1,245,976**	**735**	**284,630**	**18,242**	**107,592**	**1,657,175**
Increases:						
Purchases	-	-	2,540	-	59,776	62,316
Decreases:						
Liquidation	-	-	(52,043)	-	-	(52,043)
Transfers	-	-	160,585	-	(161,341)	(756)
As at 31 December 2013	**1,245,976**	**735**	**395,712**	**18,242**	**6,027**	**1,666,692**
Depreciation and amortization						
As at 1 January 2013	**-**	**735**	**260,566**	**18,242**	**-**	**279,543**
Increases:						
Depreciation charge for the period	-	-	22,485	-	-	22,485
Other increases	-	-	1,250	-	-	1,250
Decreases:						
Liquidation	-	-	(51,790)	-	-	(51,790)
As at 31 December 2013	**-**	**735**	**232,511**	**18,242**	**-**	**251,488**
Carrying amount						
As at 1 January 2013	1,245,976	-	24,064	-	107,592	1,377,632
As at 31 December 2013	**1,245,976**	**-**	**163,201**	**-**	**6,027**	**1,415,204**

As at 31 December 2014, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise of ABN AMRO Bank (Poland) S.A. as at 1 March 2005.

27. Impairment test for goodwill

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

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

Book value of goodwill allocated to unit

PLN'000	**31.12.2014**
Corporate Bank	851,944
Consumer Bank	394,032
	1,245,976

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

The discount rate, which is equivalent to the required rate of return, has been used in the valuation. The required rate of return is assessed on the basis of the capital assets pricing model (CAPM) using a beta coefficient for the banking sector, a risk premium and Treasury bond yield curves. In 2014, the discount rate amounted to 8.45% (in 2013: 9.75%).

Extrapolation of cash flows, which exceed the period covered by the financial plan, has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2014.

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

28. Deferred income tax asset

PLN'000	**31.12.2014**	**31.12.2013**
Deferred income tax asset	1,153,927	827,988
Deferred income tax provision	(996,112)	(623,953)
Deferred income tax net asset	**157,815**	**204,035**

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

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

Deferred income tax asset is attributable to the following:

PLN'000	**31.12.2014**	**31.12.2013**
Interest accrued and other expense	22,446	24,332
Revaluation impairment write-offs	60,072	94,982
Unrealized premium from securities available-for-sale	10,531	3,445
Derivative financial instruments negative valuation	956,628	583,775

PLN'000	31.12.2014	31.12.2013
Negative valuation of securities held-for-trading	3,866	2,514
Income collected in advance	8,579	11,323
Valuation of shares	2,916	4,662
Commissions	7,511	9,599
Debt securities available-for-sale	-	10,131
Staff expenses and other cost due to pay	64,576	74,862
Other	16,802	8,363
Deferred income tax asset	**1,153,927**	**827,988**

Deferred income tax provision is attributable to the following:

PLN'000	31.12.2014	31.12.2013
Interest accrued (income)	28,531	20,189
Derivative financial instruments positive valuation	929,863	561,273
Unrealized securities available-for-sale discount	789	1,332
Income to receive	4,864	6,085
Positive valuation of securities held-for-trading	1,533	1,370
Debt securities available-for-sale	14,371	5,030
Investment relief	14,351	15,853
Other	1,810	12,821
Deferred income tax provision	**996,112**	**623,953**
Net asset for deferred income tax	**157,815**	**204,035**

Movement in temporary differences during the year 2014

The movement in temporary differences relating to deferred income tax asset:

PLN'000	As at 1 January 2014	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2014
Interest accrued and other expense	24,332	(1,886)	-	22,446
Revaluation impairment write-offs	94,982	(34,910)	-	60,072
Unrealized premium from securities available-for-sale	3,445	7,086	-	10,531
Derivative financial instruments negative valuation	583,775	372,853	-	956,628
Negative valuation of securities held-for-trading	2,514	1,352	-	3,866
Income collected in advance	11,323	(2,744)	-	8,579
Valuation of shares	4,662	(1,746)	-	2,916
Commissions	9,599	(2,088)	-	7,511
Debt securities available-for-sale	10,131	-	(10,131)	-
Staff expenses and other cost due to pay	74,862	(11,612)	1,326	64,576
Other	8,363	8,439	-	16,802
	827,988	**334,744**	**(8,805)**	**1,153,927**

The movement in temporary differences relating to deferred income tax provision:

PLN'000	As at 1 January 2014	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2014
Interest accrued (income)	20,189	8,342	-	28,531
Derivative financial instruments positive valuation	561,273	368,590	-	929,863
Unrealized securities available-for-sale discount	1,332	(543)	-	789
Income to receive	6,085	(1,221)	-	4,864
Positive valuation of securities held-for-trading	1,370	163	-	1,533
Debt securities available-for-sale	5,030	(3,002)	12,343	14,371
Investment relief	15,853	(1,502)	-	14,351

PLN'000	As at 1 January 2014	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2014
Other	12,821	(11,011)	-	1,810
	623,953	**359,816**	**12,343**	**996,112**
Change in net assets for deferred income tax	**204,035**	**(25,072)**	**(21,148)**	**157,815**

Movement in temporary differences during the year 2013

The movement in temporary differences relating to deferred tax assets:

PLN'000	As at 1 January 2013	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2013
Interest accrued and other expense	25,441	(1,109)	-	24,332
Revaluation impairment write-offs	126,434	(31,452)	-	94,982
Unrealized premium from securities available-for-sale	1,193	2,252	-	3,445
Derivative financial instruments negative valuation	727,952	(144,177)	-	583,775
Negative valuation of securities held-for-trading	1,596	918	-	2,514
Income collected in advance	11,950	(627)	-	11,323
Valuation of shares	5,809	(1,147)	-	4,662
Commissions	9,877	(278)	-	9,599
Debt securities available-for-sale	-	-	10,131	10,131
Staff expenses and other cost due to pay	60,568	14,294	-	74,862
Other	38,497	(30,134)	-	8,363
	1,009,317	**(191,460)**	**10,131**	**827,988**

The movement in temporary differences relating to deferred tax liability:

PLN'000	As at 1 January 2013	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2013
Interest accrued (income)	27,229	(7,040)	-	20,189
Unrealized premium from options	8	(8)	-	-
Derivative financial instruments positive valuation	674,830	(113,557)	-	561,273
Unrealized securities available-for-sale discount	885	447	-	1,332
Income to receive	4,689	1,396	-	6,085
Positive valuation of securities held-for-trading	3,951	(2,581)	-	1,370
Debt securities available-for-sale	60,420	5,030	(60,420)	5,030
Investment relief	16,501	(648)	-	15,853
Other	-	12,821	-	12,821
	788,513	**(104,140)**	**(60,420)**	**623,953**
Change in net asset for deferred income tax	**220,804**	**(87,320)**	**70,551**	**204,035**

29. Other assets

PLN'000	31.12.2014	31.12.2013
Interbank settlements	1,128	1,982
Income to receive	47,746	48,795
Staff loans out of the Social Fund	18,746	20,861
Sundry debtors	91,288	78,026
Prepayments	8,894	11,532
Other assets, total	**167,802**	**161,196**
Including financial assets*	111,162	100,869

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

30. Non-current assets held-for-sale

As at 31 December 2014, non-current assets held-for-sale include the Bank’s own property with the total value of PLN 2,113 thousand (31 December 2013: PLN 12,738 thousand), which was reclassified to this group from fixed tangible assets.

The movement in non-current assets held-for-sale is as follows:

PLN’000	**2014**	**2013**
As at 1 January	**12,738**	**12,554**
Increases:		
Acquisition of properties for debts	-	184
Reclassified from bank properties	1,174	-
Decreases:		
Revaluation	(1,152)	-
Disposal	(10,647)	-
As at 31 December	**2,113**	**12,738**

Classifying a non-current asset as held for sale, the Bank anticipated distribution to be completed within one year from the date of classification. In case the sale has not occurred within one year, the Bank remains committed to its plan to sell the asset and implements it actively and the delay is caused by events or circumstances beyond the Bank's control.

31. Amounts due to banks

PLN’000	**31.12.2014**	**31.12.2013**
Current accounts	663,828	861,505
Term deposits	2,370,128	3,356,434
Loans and advances received	233,234	169,491
Liabilities due to sold securities under repurchase agreements	1,726,049	1,783,602
Other liabilities	10,951	1,925
Amounts due to banks, total	**5,004,190**	**6,172,957**

32. Hedging derivatives

Liabilities – Negative valuation

PLN’000	**31.12.2014**	**31.12.2013**
Balance sheet valuation of instruments hedging the fair value of securities		
IRS transactions	-	24,710

Hedging derivates as at 31 December 2013

PLN’000	**Nominal amount with remaining life of**				**Total**
	less than 3 months	**between 3 months and 1 year**	**between 1 year and 5 years**	**more than 5 years**	
Interest rate instruments					
Interest rate swaps (IRS)	-	-	1,670,500	100,000	1,770,500

33. Amounts due to customers

PLN'000	31.12.2014	31.12.2013
Deposits from financial sector entities		
Current accounts	191,482	235,539
Term deposits	3,137,137	3,111,434
	3,328,619	**3,346,973**
Deposits from non-financial sector entities		
Current accounts, including:	19,276,096	16,964,038
corporate customers	8,589,325	7,701,289
individual customers	6,354,558	5,915,309
public sector units	4,332,213	3,347,440
Term deposits, including:	7,066,180	5,839,294
corporate customers	5,668,825	4,649,623
individual customers	1,270,001	972,856
public sector units	127,354	216,815
	26,342,276	**22,803,332**
Total deposits	**29,670,895**	**26,150,305**
Other liabilities		
Securities sold under repurchase agreements	-	352,153
Other liabilities, including:	132,650	131,899
liabilities due to deposits	78,153	101,646
Total other liabilities	**132,650**	**484,052**
Total amounts due to customers	**29,803,545**	**26,634,357**

34. Provisions

PLN'000	31.12.2014	31.12.2013
Litigation	9,571	15,250
Granted financial and guarantee commitments	13,238	13,150
Restructuring of the branch network	-	53,267
Workforce restructuring	3,379	7,034
Provisions, total	**26,188**	**88,701**

The movement in provisions is as follows:

PLN'000	2014	2013
As at 1 January	**88,701**	**28,596**
Provisions for:		
Litigation	15,250	11,085
Granted financial and guarantee commitments	13,150	11,476
Workforce restructuring	53,267	
Restructuring of branches chain*	7,034	3,741
Other	-	2,294
Increases:		
Charges to provisions in the period:	42,567	105,666
litigation	4,693	9,643
granted financial and guarantee commitments	31,101	32,528
workforce restructuring	-	55,160
restructuring of the branch network	6,773	7,193
other	-	1,142

PLN'000	2014	2013
Other increases in provisions, including:	1	12
For litigation	1	12
Decreases:		
Release of provisions in the period	(46,517)	(32,888)
litigation	(10,373)	(424)
granted financial and guarantee commitments	(31,013)	(30,854)
Workforce restructuring	(4,496)	-
restructuring of the branch network*	(635)	(512)
other	-	(1,098)
Provisions used in the period, including:	(58,564)	(12,685)
litigation	-	(5,066)
workforce restructuring	(48,771)	(1,893)
restructuring of the branch network*	(9,793)	(3,388)
other	-	(2,338)
As at 31 December	**26,188**	**88,701**

*The provisions on restructuring branch chain balance on 1 January 2013 involves the rest of amount of made in 2012 provision on restructuring branch chain of detal banking, that was used in 2013 in amount of PLN 3,229 thousand reversed in amount of PLN 512 thousand.

35. Other liabilities

PLN'000	31.12.2014	31.12.2013
Staff benefits	51,163	52,589
Interbank settlements	70,089	89,729
Interbranch settlements	2,963	3,535
Settlements with Tax Office and National Insurance (ZUS)	22,786	22,398
Sundry creditors	129,745	104,877
Accruals, including:	354,191	332,085
Provision for employee payments	116,132	117,064
Provision for employee retirement payments	39,319	30,761
Provision for employee jubilee payments	268	3,360
IT services and bank operations support	113,000	90,540
Consultancy services and business support	26,245	43,044
Other	59,227	47,316
Deferred income	19,010	17,701
Other liabilities, total	**649,947**	**622,914**
Including financial liabilities*	608,151	582,815

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

36. Financial assets and liabilities by contractual maturity

As at 31 December 2014

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	20	2,068,494	1,508,573	216	354,470	205,235	-
Financial assets held-for-trading							
Debt securities held-for-trading	21	7,096,875	162	179,636	759,557	4,611,917	1,545,603
Financial assets available-for-sale							
Debt securities available-for-sale	22	14,435,099	4,499,750	111,492	-	6,598,749	3,225,108
Amounts due from customers (gross)							

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from financial sector entities	24	985,328	690,328	70,000	185,000	40,000	-
Amounts due from non-financial sector entities	24	16,297,212	7,639,482	1,413,513	1,466,230	4,426,423	1,351,564
Amounts due to banks	31	5,004,190	2,821,006	72,758	1,849,391	228,628	32,407
Amounts due to customers							
Amounts due to financial sector entities	33	3,328,619	3,282,080	42,988	2,912	639	-
Amounts due to non-financial sector entities	33	26,474,926	25,713,941	445,186	303,973	11,826	-

As at 31 December 2013

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	20	3,541,095	2,857,827	334,617	10,491	338,160	-
Financial assets held-for-trading							
Debt securities held-for-trading	21	2,215,673	30,379	-	342,976	1,224,881	617,437
Financial assets available-for-sale							
Debt securities available-for-sale	22	17,616,041	9,748,646	-	189,730	6,004,765	1,672,900
Amounts due from customers (gross)							
Amounts due from financial sector entities	24	671,629	224,101	70,000	377,528	-	-
Amounts due from non-financial sector entities	24	15,061,725	8,002,182	881,383	1,150,000	3,977,352	1,050,808
Amounts due to banks	31	6,172,957	3,880,704	622,080	1,501,255	168,918	-
Amounts due to customers							
Amounts due to financial sector entities	33	3,699,126	3,677,379	10,448	10,677	622	-
Amounts due to non-financial sector entities	33	22,935,231	22,219,349	366,247	339,559	10,076	-

37. Capital and reserves

Share capital

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

Par value of 1 share amounts PLN 4.00

As at 31 December 2014, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares with a nominal value of PLN 4 each, which has not changed since 31 December 2013.

The Bank has not issued preferred shares.

Both in 2014 and 2013 there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2014 and 31 December 2013, held at least 5% of the total number of votes at the General Meeting or at least 5% of Bank's share capital:

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

During 2014 and during the period from the publication of the previous interim quarterly report for Q3 2014 until the day of the publication of this annual report for 2014, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2014, supplementary capital was PLN 2,944,585 thousand (31 December 2013: PLN 2,944,585 thousand). Supplementary capital is designated for offsetting the Bank's financial position losses or for other purposes including payment of dividends to the shareholders. The General Shareholders' Meeting decides upon the utilization of supplementary capital, but a portion of its balance amounting to one third of total share capital may be used exclusively for offsetting losses shown in the financial statements.

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

Revaluation reserve

PLN'000	31.12.2014	31.12.2013
Revaluation of financial assets available-for-sale	**52,622**	**(43,190)**

The revaluation reserve is not distributed. As at the day of derecognition of all or part of financial assets available-for-sale from the statement of financial position, accumulated profits or losses that were previously presented in the other comprehensive and accumulated income in the revaluation reserve are reclassified to the income statement.

Other reserves

PLN'000	31.12.2014	31.12.2013
Reserve capital	2,341,973	2,341,407
General risk reserve	521,000	521,000
Net actuarial losses on specific services program valuation	(5,656)	-
Other reserves, total	**2,857,317**	**2,862,407**

On 24 June 2014 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2013, deciding to appropriate the amount of PLN 566 thousand thousand for reserve capital.

Reserve capital

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

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

General risk reserve

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

Dividends

Dividends paid for 2013

The Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter WZ) adopted a resolution on distribution of the net profit for 2013 on June 24, 2014. The Meeting resolved to appropriate the amount of PLN 934,216,140.00 for the dividend payment The dividend has cash character. That means that the dividend per one ordinary share is PLN 7.15. The number of shares covered by the dividend is 130,659,600.

Simultaneously, the WZ resolved to set the day of the right to the dividend for July 7, 2014 (day of dividend) and the day of the dividend payment for August 29, 2014 (day of the dividend payment).

Declared dividends

On 10 March 2015, the Bank's Management Board adopted a resolution on the proposed distribution of profit for 2014. The Bank's Management Board has proposed to allocate the amount of PLN 970,800,828.00 for dividend payment. The dividend has cash character. This means that the dividend per share amounts to PLN 7.43. The number of shares covered by dividends is 130,659,600. The dividend record date was designated as 6 July 2015 and the dividend payment date was designated as 24 July 2015. This proposal of the Bank's Management Board will be submitted to the Supervisory Board for opinion and then to the General Shareholders' Meeting for approval.

38. Repurchase and reverse repurchase agreements

Repurchase agreements

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

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

As at 31 December 2014, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities available-for-sale	1,724,270	1,726,049	Up to 1 week	1,726,140

** including interest*

As at 31 December 2013, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Financial assets held-for-trading				
Debt securities	27,099	27,149	up to 1 week	27,157
Debt securities available-for-sale	2,106,976	2,108,606	up to 1 week	2,108,752

** including interest*

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

As at 31 December 2014 and 31 December 2013, assets sold through repo cannot be further traded.

In 2013, the total interest expense on repurchase agreements was PLN 14,086 thousand (in 2013: PLN 33,798 thousand).

Reverse repurchase agreements

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

As at 31 December 2014, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	504,195	504,367	Up to 1 month	504,260
	177,446	182,760	Up to 3 years	178,886
Amounts due from customers:				
from financial sector entities	599,899	599,610	Up to 1 month	600,048

**including interest*

As at 31 December 2013, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	1,841,873	1,843,966	up to 1 month	1,842,290
Amounts due from customers:				
from financial sector entities	100,789	100,679	up to 1 month	100,807

**including interest*

As at 31 December 2014 and 31 December 2013, the Bank held the option to pledge or sell the assets acquired through reverse repo.

In 2014, the total interest income on reverse repurchase agreements was PLN 42,230 thousand (in 2013: PLN 39,596 thousand).

As at 31 December 2014 the liabilities due to short sale of securities purchased in the reverse repo transactions amounted PLN 1,005,545 thousand (as at 31 December 2013: PLN 481,601 thousand).

39. Offsetting of financial assets and financial liabilities

According to information in Note 2, the Bank does not offset and does not present financial assets and liabilities in net amounts. Therefore, in line with requirements of IFRS 7, disclosures provided below relate only to financial assets and liabilities resulting from derivative contracts, concluded under the master agreements such as ISDA, Master Agreement recommended by the Polish Banks' Union, and other master agreements, under which, in certain breaches of the contracts' provisions, the contract may be terminated and settled in net amount of receivables and liabilities.

The table below presents the fair values of derivatives (from trading portfolio and designated as hedging instruments) as well as collateral, which may be offset under the master agreements in certain circumstances.

PLN'000	31.12.2014		31.12.2013	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	5,476,854	5,597,147	3,296,014	3,581,696
Value of collateral received/placed	(180,008)	(359,622)	(15,100)	(392,185)
Assets and liabilities subject to offsetting under the master agreement	**5,296,846**	**5,237,525**	**3,280,914**	**3,189,511**
Maximum amount of potential offset	(5,225,136)	(5,225,136)	(3,180,488)	(3,180,488)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**71,710**	**12,389**	**100,426**	**9,023**

40. Hedge accounting

Starting from the 4th quarter of 2013 the Bank has applied fair value hedge accounting. The Bank hedges against the risk of change in fair value of fixed interest rate debt securities available for sale. The hedged risk results from changes in interest rates.

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

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

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

As at 31 of December 2014 there were no instruments connected by hedging relation.

Fair value of instruments within fair value hedge accounting of securities

PLN'000	31.12.2014		31.12.2013	
	Nominal value	Fair value	Nominal value	Fair value
Hedged instruments				
Debt securities available-for-sale				
Treasury bonds	-	-	1,770,500	1,836,219
Hedging instruments				
Derivative instruments				
Interest rate swaps – negative valuation	-	-	1,770,500	(24,710)

41. Fair value information

Fair value of financial assets and liabilities

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

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

As at 31 December 2014

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total balance value	Fair value
Financial assets							
Cash and balances with Central Bank	19	-	1,522,949	-	-	1,522,949	1,522,949
Amounts due from banks	20	-	2,065,614	-	-	2,065,614	2,065,614
Financial assets held-for-trading	21	12,721,335	-	-	-	12,721,335	12,721,335
Debt securities available-for-sale	22	-	-	14,435,099	-	14,435,099	14,435,099
Equity investment	23	-	-	7,891	232,526	240,417	304,115
Amounts due from customers	24	-	16,545,902	-	-	16,545,902	16,549,548
		12,721,335	**20,134,465**	**14,442,990**	**232,526**	**47,531,316**	**47,598,660**
Financial liabilities							
Amounts due to banks	31	-	-	-	5,004,190	5,004,190	5,002,424
Financial liabilities held-for-trading	21	6,770,922	-	-	-	6,770,922	6,770,922
Amounts due to customers	33	-	-	-	29,803,545	29,803,545	29,802,026
		6,770,922	**-**	**-**	**34,807,735**	**41,578,657**	**41,575,372**

As at 31 December 2013

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total balance value	Fair value
Financial assets							
Cash and balances with Central Bank	19	-	778,464	-	-	778,464	778,464
Amounts due from banks	20	-	3,539,922	-	-	3,539,922	3,540,148
Financial assets held-for-trading	21	5,746,799	-	-	-	5,746,799	5,746,799
Debt securities available-for-sale	22	-	-	17,616,041	-	17,616,041	17,616,041
Equity investments	23	-	-	15,280	232,203	247,483	335,055
Amounts due from customers	24	-	14,811,383	-	-	14,811,383	14,813,298
		5,746,799	**19,129,769**	**17,631,321**	**232,203**	**42,740,092**	**42,829,805**
Financial liabilities							
Amounts due to banks	31	-	-	-	6,172,957	6,172,957	6,174,688
Financial liabilities held-for-trading	21	4,196,896	-	-	-	4,196,896	4,196,896
Hedging derivatives	32	24,710	-	-	-	24,710	24,710
Amounts due to customers	33	-	-	-	26,634,357	26,634,357	26,633,826
		4,221,606	**-**	**-**	**32,807,314**	**37,028,920**	**37,030,120**

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

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

  The active market includes stock and brokerage quotes and quotes in such systems as pricing services, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include securities held-for-trading or available-for-sale.
- Level II: financial assets / liabilities valued on the basis of models based on input data from the active market and presented in Reuters and Bloomberg systems, depending on financial instruments, the following specific valuation techniques are used:
  - listed market prices for a given instrument or listed market prices for an alternative instrument,
  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments,
  - other techniques, such as yield curves based on alternative prices for a given financial instrument.
- Level III: financial assets / liabilities valued on the basis of valuation techniques using relevant parameters not market-based.

In 2014, the Bank did not make any changes in the classification of financial instruments (presented by the fair value method in the statement of financial position) to categories of fair value assignment (Level I, Level II, Level III).

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

As at 31 December 2014

PLN'000	Note	Level I	Level II	Total
Financial assets				
Financial assets held-for-trading	21	6,944,306	5,777,029	12,721,335
derivatives		-	5,624,460	5,624,460
debt securities		6,944,306	152,569	7,096,875
Debt securities available-for-sale	22	8,753,310	5,681,789	14,435,099
Financial liabilities				
Financial liabilities held-for-trading	21	1,005,737	5,765,185	6,770,922
short sale of securities		1,005,545	-	1,005,545
derivatives		192	5,765,185	5,765,377

In 2014 Bank did not make any transfers between levels of financial instruments' fair value according to method of establishing fair value.

As at 31 December 2013

PLN'000	Note	Level I	Level II	Total
Financial assets				
Financial assets held-for-trading	21	2,103,652	3,643,147	5,746,799
derivatives		2,116	3,529,010	3,531,126
debt securities		2,101,536	114,137	2,215,673
Debt securities available-for-sale	22	6,578,656	11,037,385	17,616,041
Financial liabilities				
Financial liabilities held-for-trading	21	481,804	3,715,092	4,196,896
short sale of securities		481,601	-	481,601
derivatives		203	3,715,092	3,715,295
Hedging derivatives	32	-	24,710	24,710

In 2013, the Bank transferred financial assets available-for-sale from the category valued using relevant parameters not market-based (level III) to the category valued using information from an active market (level II). The change of the category concerns derivatives and results from change of the market-based valuation model. The value of transferred assets was PLN 1,523 thousands.

Additionally in 2013, taking into account the market activity, there was made a transfer of the part of debt securities classified to financial assets held-for-trading in amount PLN 246,880 thousands and the part of debt securities available-for-sale in amount PLN 1,216,694 thousand from the category valued directly on the basis of prices quoted in an active market (level I) to the category valued using information from an active market (level II).

Fair value measurement

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

Equity investments

In the case of financial assets which are interests in subsidiaries, the fair value was presented as the percentage of net assets of an entity that is attributable to the Bank's interests in a given entity. The Bank's Management Board believes that this is the best available approximation of fair value of such instruments.

For non-controlling interests, fair value is the purchase price adjusted for impairment losses for both unlisted and listed investments due to the contractual time limit of the possibility of their disposal.

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

In 2014, among all equity investments, where fair value could not be established, the Bank sold:

- Shares in Kuźnia Polska S.A, representing 5.20% in capital and 5.20% of votes at the General Meeting. The balance value of sold shares amounted PLN 1,536 thousand;
- Shares in Polski Koncern Mięsny DUDA S.A representing 4.52% of the share in the capital and 4.52% of votes at the General Meeting.The balance value of sold shares amounted PLN 5,649 thousand.

In 2013, from capital investments, of which the fair value could not be measured, the Bank sold:

- Shares in Elektromontaż Poznań S.A., representing 19.88% of the share in the capital and 19.88% of votes at the General Meeting of Shareholders. Book value of sold shares amounted to PLN 4,715 thousand;
- Handlowy Investmens II S.a.r.l., representing 80.97% of the share in the capital and 80.97% of votes at the General Meeting of Shareholders. The balance value in Handlowy Investmens II S.a.r.l. amounted to PLN 5,532 thousand.

Amounts due from customers and banks

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

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

Amounts due to banks and customers

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

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

42. Contingent liabilities and litigation proceedings

Information on pending proceedings

In 2014, there was no single proceeding regarding the Bank's receivables or liabilities, the value of which would be equal to at least 10% of equity, pending in court, before a public administration authority or an arbitration authority.

The total value of all pending legal proceedings regarding receivables with the participation of the Bank did not exceed 10% of the Bank's equity t in 2014.

The total value of Bank's liabilities regarding legal proceedings did not exceed 10%.

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

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

As at 31 December 2014, the Bank was among others a party to 27 court proceedings regarding derivative transactions: in 18 proceedings the Bank acted as a defendant and in 9 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. To the date of preparation of the financial statements, where the Bank was defendant or plaintiff, 10 legally valid court decisions were issued - 8 in favor of the Bank and 2 unfavorable –in 8 cases Bank concluded a compromise.

The Bank is 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 proceedings concern 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. On 22 April 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. As at 31 December 2013, there was no final court decision in this case. In its decision of 8 May 2012, SOKiK suspended the proceedings until the legally valid closing of proceedings before the Court of Justice of the European Union in a case brought by MasterCard against a decision of the European Commission (ref. no. T 111/08). An appeal was filed against the SOKiK decision of 8 May 2012 with the Appeal Court. On 25 October 2012, the Appeal Court changed the appealed decision by dismissing the application for suspension of the proceedings. The Appeal Court decided that, in view of the case involving the Bank and considered by SOKiK being different from the proceedings before the Court of Justice of the European Union in the case brought by MasterCard against a decision of the European Commission (ref. no. T 111/08), it is not admissible to conclude that the proceedings before the Court of Justice of the European Union are prejudicial proceedings for the case considered by SOKiK. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set up at the amount of PLN 1,775,720.00. SOKiK dismissed the appeals of the banks in the remaining range, refusing to consider the interchange fee agreements as complying with the law and to include them into the agreements covered with the individual exemptions as in article 11 paragraph 2 in relation to article 7 paragraph 1 of the Act on protection of competition and customers of 15 December 2000, indicating that the banks did not prove there are indications for such an exemption. The judgment is invalid and is likely to be verified of instance due to appealing by the Bank and other parties against the judgment of SOKiK. After the proceeding before the Court of Appeal the judgment of SOKiK may be maintained, set aside or amended.

In 2014 there were no significant settlements on courts cases.

Commitments due to granted and received financial and guarantees liabilities

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

PLN'000	**31.12.2014**	**31.12.2013**
Financial and guarantees liabilities granted		
Letters of credit	208,126	137,569
Guarantees granted	1,779,425	1,775,108
Credit lines granted	13,421,725	12,524,677
Underwriting other issuers' securities issues	1,264,450	1,508,050
Reverse repurchase transactions with future currency date	189,650	242,521
	16,863,376	**16,187,925**

PLN'000	**31.12.2014**	**31.12.2013**
Letters of credit by category		
Import letters of credit issued	207,208	135,060
Export letters of credit confirmed	918	2,509
	208,126	**137,569**

The Bank makes provisions for granted financial and guarantees commitments. As at 31 December 2014, the provisions created financial and guarantees commitments amounted to PLN 13,238 thousand (31 December 2013: PLN 13,150 thousand).

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

PLN'000	**31.12.2014**	**31.12.2013**
Financial and guarantees liabilities received		
Finance	708,148	1,247,960
Guarantees	6,199,449	4,970,167
	6,907,597	**6,218,127**

43. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	**31.12.2014**	**31.12.2013**
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	1,726,049	1,783,602
Liabilities on credit received	208,341	124,416

PLN'000	31.12.2014	31.12.2013
Amounts due to customers		
securities sale and repurchase agreements	-	352,153
	1,934,390	**2,260,171**

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

PLN'000	31.12.2014	31.12.2013
Assets pledged		
Debt securities held-for-trading	-	27,099
Debt securities available-for-sale	2,194,933	2,424,272
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market transactions	381,971	394,188
Amounts due from customers		
Stock market trading guarantee funds and settlements	43,912	56,278
	2,620,816	**2,901,837**

As at 31 December 2014, the debt securities available-for-sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund in the amount PLN 176,088 thousand (31 December 2013: PLN 170,566 thousand) and the collateral against securities sold with repurchase agreement in the amount PLN 1,724,270 thousand (31 December 2013: PLN 2,106,976 thousand).

Debt securities held-for-trading as at 31 December 2013 constitute security of the Bank's obligations under securities sold with repurchase agreement. For more details on assets covering the Bank's obligations under repo transactions, see Note 38.

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

44. Custodian activities

The Bank offers both custodian services connected with securities accounts for foreign institutional investors and custodian services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2014, the Bank maintained over 10 thousand securities accounts (31 December 2013: over 13 thousand accounts).

45. Operating leases

Leases where the Bank is the lessee

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

PLN'000	31.12.2014	31.12.2013
Less than 1 year	36,155	35,339
Between 1 and 5 years	81,114	62,911
More than 5 years	2,835	-
	120,104	**98,250**
Total annual rentals for contracts for an unspecified period of time	**2,379**	**2,630**

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

Office space lease contracts are signed for 5 years with the option of extension for another three years; however, some contracts have been signed for a period up to 1 year and some for more than 10 years. Lease payments are subject to annual indexation. The total amount of lease payments in 2014 amounted to PLN 35,542 thousand (in 2013: PLN 39,661 thousand).

The lease contracts have been signed for 4 years. Lease payments are determined at a fixed interest rate for the entire lease period. In 2014, the Bank incurred payments amounting to PLN 6,593 thousand (in 2013: PLN 8,705 thousand).

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

Leases where the Bank is the lessor

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

PLN'000	**31.12.2014**	**31.12.2013**
Less than 1 year	2,223	1,807
Between 1 and 5 years	2,416	3,137
	4,639	**4,944**
Total annual rentals for contracts for an unspecified period of time	**9,733**	**9,074**

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

Most of the office space lease contracts are signed for an unspecified period of time. Other contracts are signed for a period of between 2 and 10 year. Lease payments are subject to annual indexation. The income related to these contracts amounted in 2014 to PLN 8,260 thousands (in 2013: PLN 8,704 thousands).

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

46. Cash flow statement

Additional information:

PLN'000	**31.12.2014**	**31.12.2013**
Cash related items:		
Cash in hand	495,408	532,142
Nostro current account in Central Bank	1,027,541	246,322
Current accounts in other banks (nostro, overdrafts on loro accounts)	209,895	341,693
	1,732,844	**1,120,157**

47. Related parties

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

In the normal course of business activities, the Bank enters into transactions with related parties, in particular with entities of Citigroup Inc. and subsidiaries (see Note 23).

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

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

Transactions with subsidiaries

The receivables and liabilities towards subsidiaries are as follows:

PLN'000	**31.12.2014**	**31.12.2013**
Receivables		
Overdraft facilities	680	26,891
Other receivables	-	2,274
	680	**29,165**
Receivables		
Opening balance	29,165	163,150
Closing balance	680	29,165
Deposits		
Current accounts	16,076	350
Term deposits	245,386	197,975
	261,462	**198,325**
Deposits		
Opening balance	198,325	115,382
Closing balance	261,462	198,325
Contingent liabilities granted		
Credit lines granted	**260,389**	**325,026**

PLN'000	**2014**	**2013**
Interest and commission income	2,387	6,052
Interest and commission expenses	5,602	3,927

As at 31 December 2014 and 31 December 2013, no receivables or contingent liabilities granted to subsidiaries were subject to impairment write-offs.

Transactions with other related entities

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

PLN'000	**31.12.2014**	**31.12.2013**
Receivables, including:	194,521	756,025
Placements	104,914	138,509
Liabilities, including:	2,485,807	3,808,551
Deposits	2,042,974	3,238,716
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	4,632,733	2,699,322
Liabilities held-for-trading	4,514,920	2,891,447
Liabilities due to hedging derivatives	-	17,486
Contingent liabilities granted	235,286	163,971
Contingent liabilities received	869,933	1,418,444
Contingent transactions in derivative instruments (commitments granted/received), including:	235,984,565	182,584,553
Interest rate instruments	214,744,922	165,280,456
FRA	33,970,000	19,680,000
Interest rate swaps (IRS)	155,007,205	122,893,780
Currency – interest rate swaps (CIRS)	25,394,856	21,735,386
Interest rate options	304,832	478,498
Futures contracts	68,029	492,792
Currency instruments	20,708,532	16,744,149
FX forward/spot	879,675	1,635,593

PLN'000	31.12.2014	31.12.2013
FX swap	17,254,092	12,498,863
Foreign exchange options	2,574,765	2,609,693
Securities transactions	288,079	72,059
Securities purchased pending delivery	89,933	56,368
Securities sold pending delivery	198,146	15,691
Commodity transactions	243,032	487,889
Swaps	209,697	546
Options	33,335	487,343

PLN'000	2014	2013
Interest and commission income	25,862	28,051
Interest and commission expense	10,399	11,132

The Bank incurs costs and receives income on derivative transactions with Citigroup Inc. entities to hedge the Bank's position in market risk. These derivative transactions are opposite (back-to-back) to derivative transactions with other Bank clients or close the proprietary position of the Bank. The net carrying amount of financial derivative transactions as at 31 December 2014 amounted to PLN 117,813 thousand (as at 31 December 2013: PLN (209,611) thousand).

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

The costs arising and accrued (including VAT, reflected in the Bank's costs) under concluded agreements in 2014 and 2013 mainly related to the cost of services provided to the Bank for the maintenance of the banking IT systems and advisory support and are included in general administrative expenses; income was mainly related to the provision of data processing services by the Bank to such entities and is presented in other operating income.

PLN'000	2014	2013
General administrative expenses	176,487	174,991
Other operating income	14,225	17,223

In 2013 capitalization of investment regarding functionality modification of Bank's IT systems took place. Total payments for Citigroup entities amounted PLN 47,811 thousands (see note 26).

48. Transactions with the key management personnel

PLN'000	31.12.2014		31.12.2013	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**2,771**	**-**	**584**	**-**
Deposits				
Current accounts	3,344	6,143	6,827	28,701
Term deposits	2,632	123	3,000	271
	5,976	**6,266**	**9,827**	**28,972**

As at 31 December 2014 and 31 December 2013, no loans or guarantees were granted to members of the Management Board and the Supervisory Board.

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

In case of one of members of the Management Board there is an employment contract conducted with the Bank including 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.

49. Employee benefits

Employee benefits are divided into the following categories:

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

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

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

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

  <u>Description of the Employee Pension Plan</u>

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

  The basic contribution paid by the employer is defined as a percentage of salary of the Plan member. The basic contribution rate amounts 6%. The additional contribution – voluntary, is paid by an employee – the Plan participant. The minimum amount of the monthly additional contribution is PLN 10,00 and the maximum amount of the additional contribution is limited to the employee's salary free from deductions within the meaning of Art. 87 of the Labour Code. The basic contribution is the Plan participant's income, from which he is obligated to pay the personal income tax (articles 12 and 13 of the Act on the income tax from individuals of 26 July 1991, Official Journal from 2000. no 90, position 416 with amendments.).

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

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

- other long-term employee benefits – jubilee and other long service awards and deferred cash award. Information about jubilee awards is described in Note 2. Information on jubilee awards paid to employees is presented in Note 2. These are paid under a defined-benefit scheme and their valuation is carried out by an independent actuary in accordance with IAS 19. From 1 of January 2015 employers with long-term work-experience (10, 20, 30 etc.) are entitled to rewards in kind;

- employee equity benefits – in the form of stock options granted on Citigroup common stock,under stock award programs based on shares of Citigroup common stock in the form of deferred stock and also in the form of phantom shares of Bank Handlowy w Warszawie S.A. Valuation and presentation principles of these programs are described in Note 2 in "Share-based payments." Detailed information concerning the employee equity benefits are presented in the further part of this Note.

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

PLN'000	**31.12.2014**	**31.12.2013**
Provision for remuneration	66,927	66,052
Provision for unused leave	19,486	17,424
Provision for employees' retirement and pension allowances	39,319	30,761
Provisions for employees' jubilee payments	268	3,360
Provision for employees' equity compensation	29,720	33,588
Provisions for workforce restructuring	-	53,267
	155,720	**204,452**

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

PLN'000	**2014**		**2013**	
	Provision for retirement and pension allowances	**Provision for jubilee payments**	**Provision for retirement and pension allowances**	**Provision for jubilee payments**
As at 1 January	**30,761**	**3,360**	**29,100**	**6,796**
Increases (due to):	10,008	1,649	2,735	-
Actuarial profit/loss of revaluation	6,982	-	-	-
Including these resulting from:				
Change of economic assumptions	3,769	-	-	-
Change of demographic assumptions	3,213	-	-	-
Salary expenses	1,642	1,649	1,135	-
Interest expenses	1,384	-	1,600	-
Decreases (due to):	(1,450)	(4,741)	(1,074)	(3,436)
Cost of past employment	(1,175)	-	-	-
Provisions utilisation	(275)	(3,871)	(1,074)	(3,436)
Reversal of provisions	-	(870)	-	-
As at 31 December	**39,319**	**268**	**30,761**	**3,360**

Analysis of sensitivity

w tys. zł	**2014**
	Provision for retirement and pension allowances
Central value	39,319
Decrease of growth rate to 0.5%	33,978
Increase of growth rate to 2.5%	45,880
Decrease of rotation by 10%	41,232
Increase of rotation by 10%	37,596
Decrease of discount rate by 0.5%, including:	42,405
Falling to benefits paid withing 1 year	4,025
Increase of discount rate by 0.5%, including:	36,558
Falling to benefits paid withing 1 year	4,024

More information about specific services program and their estimation is in note 2.

In 2014, the Bank's expenses in respect of premiums for the employee pension plan amounted to PLN 21,612 thousand (in 2013: PLN 21,681 thousand).

Employment at the Bank:

FTEs	2014	2013
Average employment in the year	4,300	4,765
Employment at the end of the year	4,118	4,606

In the fourth quarter of 2013, a restructuring process was started in connection with the transformation of the retail banking distribution model and further improving the Bank's operational efficiency. A provision of PLN 55,160 thousand was created for the cost of workforce restructuring and was fully used, in 2014 in amount of PLN 48,771 thousand and in 2013 PLN 1,893 thousand and the rest was reversed in amount of PLN 4,496 thousand (see note 12, 34). The rules of creating the restructuring provision are described in Note 2 in "Restructuring provision."

Description and principles of employee stock benefit schemes

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

Within the framework of the SOP, eligible employees received options to buy stock at the NYSE closing price as at day before the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award grant date. Options granted in 2009 are transferred partially in 33⅓% every year for the next three years, starting from the first anniversary of option acquisition. Options granted in the previous years 2005-2008, were transferred partially in 25% every year, starting from the first anniversary of option acquisition. Employees loss the right to options at the moment of ceasing employment in Citigroup. Options may be exercised by purchase of stocks in the period from the acquisition date of the right to an option to the expiry date of the option.

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. "Deferred shares" within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. "Deferred shares" give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. "Deferred shares" are converted into stocks after the end of a period that is determined in the Program Rules. Employees loss the right to options at the moment of ceasing employment in Citigroup. Deferred shares granted in 2010-2013 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

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

In 2012 Bank Handlowy introduced "Variable Remuneration Components Policy For Managerial Staff At Bank Handlowy w Warszawie S.A." ("Poli ru Finansowego (Polish Financial Supervisory Authority) dated 4-th of October 2011. According to cy"), according to requirements described in the Resolution 258/2011 of Komisja Nadzo the Policy the Management Board of the Bank and other managerial staff having a significant influence on the Bank's risk profile receive variable remuneration in relation to individual performance and Bank's financial results.

A portion of the Variable Remuneration of persons covered by the Policy will be paid in tranches during in the next 3,5 years.

Variable Remuneration – Phantom shares	
Transaction as per IFRS	Transactions share-based payments settled in cash in accordance with IFRS 2
Phantom Shares grant date	21 of January 2013 20 of January 2014 20 of January 2015
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	6, 18, 30 and 42 months after grant date
Vesting date	6, 12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on Bank's results, individual performance of the employee and employment in the Group in years 2013, 2014 and 2015 in relation to the award from 2013, and in years 2014, 2015 and 2016 in relation to the award from 2014 and in 2015, 2016, 2017 in respect of reward from 2015.
Program settlement	At the settlement date the participants will get an amount of cash being the product held by a participant phantom shares and the arithmetic mean of the lowest and highest prices of shares of the Bank notified on WSE at the vesting date. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank's Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

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

Variable Remuneration – Deferred Cash Award	
Transaction as per IFRS	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	21 of January 2013 20 of January 2014 20 of January 2015
Granted amount	The amount was settled on the Deferred Cash Award grant date
Date of maturity	18, 30 and 42 months after grant date
Vesting date	12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on Bank's results, individual performance of the employee and employment in the Group in years 2013, 2014 and 2015 in relation to the award from 2013, and in years 2014, 2015 and 2016 in relation to the award from 2014 and in 2015, 2016, 2017 in respect of reward from 2015.
Program settlement	At the settlement date the participants will get an amount of Deferred Cash tranche with an interest counted for the deferral period till the payment date. The interest rate was approved by the Resolution of the Supervisory Board in January 2013 and in January 2014. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other

Variable Remuneration – Deferred Cash Award	
	employees covered by the Policy. According to a decision of the above mentioned Bank's Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

Assumptions of valuation of the employee equity benefit schemes

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

SOP Program	Grant date	Exercise price / stock price at grant date [USD]	Number of eligible employees	Number of options / shares
1	29.10.2009	40.8	190	73,465

CAP Program	Grant date	Exercise price / stock price at grant date [USD]	Number of eligible employees	Number of options / shares
1	18.01.2011	50.20	25	15,315
2	17.01.2012	30.54	22	24,446
3	19.02.2013	43.93	11	5,954
4	18.02.2014	49.66	9	7,943

Phantom Shares Program	Grant Date	Exercise price / stock price at grant date [PLN]	Number of eligible employees	Number of options / shares
1	21.01.2013	96.03	27	69,535
2	20.01.2014	104.86	24	63,341

	SOP Program	CAP Program	Phantom Shares Program
Period to acquire the title (in years)	33.33% after each of the following years	25% after each of the following years	40% after 0.5 of a year and 20% after each of the following years or 60% after 0.5 of a year and13.33% after each of the following years
Expected average life cycle of the instrument	1 year after the time of rights acquisition	At the time of rights acquisition	At the time of rights acquisition
Probability of premature termination of employment (annual staff turnover for awarded employees)	7%	7%	7%
Expected variances	20.56%	-	-
Risk free interest rate (for USD)	0.96%	-	-
Expected dividends (in USD per one share)	0.04	-	-
Fair value of one instrument* (in USD)	0.00 – 13.16 (USD)	53.96 (USD)	107.55 (PLN)

**Varies depending on the date of exercise*

Options – volumes and weighted-average strike prices (SOP Program):

	31.12.2014		31.12.2013	
	Number	Weighted average strike price [USD]	Number	Weighted average strike price [USD]
At the beginning of the period	93,699	45.36	116,564	44,65
Allocated in the period	-	-	-	-
Transfers	-	-	-	-
Redeemed in the period	18,138	52.66	20,753	48,10

	31.12.2014		31.12.2013	
	Number	Weighted average strike price [USD]	Number	Weighted average strike price [USD]
Expired in the period	2,096	-	2,112	-
At the end of the period	73,465	40.80	93,699	45,36
Exercisable at the end of the period	73,465	40.80	93,699	45,36

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

	31.12.2014		31.12.2013	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	82,120	39.21	124,649	39,49
Allocated in the period	7,943	49.66	5,114	43,93
Transfers	4,336	40.20	-	-
Redeemed/expired in the period	40,741	-	47,643	-
At the end of the period	53,658	33.11	82,120	39,21

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

	31.12.2014		31.12.2013	
	Number	Weighted average share price [PLN]	Number	Weighted average share price [PLN]
At the beginning of the period	104,302	96.03	-	-
Allocated in the period	122,566	104.86	186 196	96,03
Executed in the period	93,992	109.10	81 894	96,08
Redeemed / expired In the period	-	-	-	-
At the end of the period	132,876	100.24	104 302	96,03

50. Subsequent events

After 31 December 2014, there were no major events, not included in the financial statement, that could have a significant influence on the net result of the Bank.

51. Risk management

RISK MANAGEMENT ORGANIZATION STRUCTURE AND PROCESS

The Bank’s activities involve analysis, assessment, approval and management of a broad range of risks associated with its business. Such risk management process is performed at different units and levels of the organization and covers among others: credit risk (including counterparty credit risk, residual risk of accepted collateral and concentration risk), liquidity risk, market risk, and operational risk.

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

- approving a strategy of the Bank’s activity and the rules of prudent and stable risk management;
- approving a general level of the Bank’s risk appetite as part of the internal capital adequacy assessment process (ICAAP) document;
- approving the fundamental organizational structure of the Bank, determined by the Bank’s Management Board and matched to the size and the profile of incurred risks.

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

- approves the organizational structure of the Bank, which reflects the size and the profile of the risks taken and defines the roles and responsibilities in the area of risk management, ensuring

that the functions of risk measurement, monitoring and control are independent from risk taking activities;
- Bank's Risk's Profile, by establishing significant risk types, simultaneously ensuring introducing processes of managing them and/or allocation of internal capital.
- Strategy of risk management, establishing the principles of prudent and stable risk management
- General acceptable risk level in Bank ("risk apetite"), in document summarizing the process of estimating and allocation of internal capital for a year.

The Management Board of Bank has nominated an independent Chief Risk Officer (CRO) reporting directly to the President of the Management Board and responsible for the management and control of credit risk, market risk, and operational risk, including:
- introducing a risk management system in the Bank as well as risk identification, measurement, control and reporting methods;
- developing the risk management policy and developing risk assessment and control systems;
- making credit decisions in compliance with the principles resulting from the credit procedures as well as documents determining the Bank's credit policy;
- ensuring the proper safety level of the credit portfolio;
- managing the problem loans portfolio (including collections and debt restructurings).

Processes of credit, market and operational risk management are implemented in the Bank based on written strategies and principles of risk identification, measurement, mitigation, monitoring, reporting and control approved by the Management Board or appropriately appointed Committees, including the Assets and Liabilities Management Committee (ALCO) and the Risk and Capital Management Committee.

The Chief Risk Officer presents the organizational structure of the Risk Management Sector to the Management Board of the Bank, taking into account the specificity of credit, market, liquidity and operational risk management in the respective customer segments. For this purpose, organizational units have been set up within the Risk Management Sector that are responsible for:
- managing credit risk of the Corporate Bank;
- managing credit risk of the Commercial Bank;
- managing credit risk of the Consumer Bank;
- managing impaired receivables;
- managing market risk;
- managing liquidity risk;
- managing operational risk,
- managing model risk,
- supporting risk management in the above areas including in control functions;
- process of comprehensive and continuous assessment of credit risk (Fundamental Credit Risk Assessment).

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

Risk management in the Bank is supported by a range of IT systems in the following areas:
- obligor and exposure credit risk assessment;
- credit, market and operational risk measurement, reporting and monitoring;
- monitoring and reporting of collateral;
- calculation and reporting of impairment-write-offs;
- support of implementation of New Capital Accord requirements.

Significant Risks

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

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

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

Additionally, within the risk management system, the Bank also applies credit risk mitigation rules (including by accepting collateral, thus mitigating the inherent **residual risk**) and manages **concentration risk**.

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

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

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

Operational Risk includes reputation and franchise risk associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk (defined below).

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.

CREDIT RISK

The main objective of the Bank's credit risk management is to ensure a high quality of the credit portfolio and stability of activity by minimizing the risk of incurring credit losses. Credit risk is minimized through the Bank's regulations and implemented controls.

Principles of the Credit Risk Management Policy

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

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

- Joint business and independent risk management responsibility for the quality of the credit portfolio and process as well as for credit loss;

- Adherence to portfolio guidelines to ensure diversification and maintain risk/capital alignment;
- Credit competence are granted to trained and experienced workers from risk management units on basis of their up to now work experience and their risk estimating skill abilitity.
- A minimum of two authorized credit approvers with delegated credit authority required for all significant exposures;
- Dependence of approval level from the risk taken – exposures with a higher risk (including size and risk assessment) require approval at a higher decision-making level;
- Diverse risk rating standards, adequate to every obligor and exposure, including remedial actions;
- Risk rating of every obligor and exposure in a consistent rating process using risk rating models and scorecards (scoring);
- Periodic monitoring of customers' business results and identification of negative changes in their standing which require immediate reclassification of exposure or remedial actions;
- Exceptions to Credit Policies are approved at higher levels within the organization to ensure control over risk policy implementation by higher level managers.

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

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

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

Credit risk assessment and rating

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

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

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

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

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

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

In case of the amount of exposure, the measurements methods vary from the most simple, such as the value of the asset, to complex, such as estimating potential replacement cost on a derivative contract. The processes required for these measurements also vary considerably, from a simple feed of balances to a complex, multiple simulation engine. With reference to exposures resulting from counterparty credit risk (pre-settlement) for the purpose of risk management, the Bank uses PSE measure (Pre-Settlement Exposure) reflecting future potential exposure of the counterparty. PSE reflects maximum expected exposure of the counterparty during the life of the transaction (or transaction portfolio) at a specific confidence level, depending on market factors determining the values for particular transactions in the customer portfolio. In case of lack of sufficient data for simulation of transaction portfolio value, more simplified methods are used, which also apply to measurement of exposure for internal capital purposes.

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

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

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

Credit risk monitoring

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

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

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

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

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

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

Risk mitigation

Risk mitigation is a constant and key element of the Bank's credit risk management processes. It is achieved as described below:

- Customers selection and credit confirmation
  - Target market and customer selection criteria are determined;

- Maximum credit exposure against obligor is determined through obligor limits related to customer risk ratings and/or through risk acceptance criteria;
- Limits are established and monitored in order to mitigate exposure concentration risk;
- Robust credit due diligence standards are established and maintained;
- Credit process standards are established in order to ensure a consistent approach to each segment;
- Documentation standards are applied;

- Collateral is used in order to minimize the risk and to manage residual risk;
  - Establishing acceptable collaterals and their classification in view of regain possibility in case of execution
  - Setting collaterals in right law's form (documentation standards).
  - Expected collateral structure or credit value in relation to collateral value is determined;
  - The value of collateral on property and equipment is determined by dedicated specialty functions within the Bank using external valuation where required;
- Monitoring and early warning system
  - Credit exposures monitoring and early warning system are used;
  - Regular inspection of portfolio ensuring identification of adverse tendencies and concentration
  - Active portfolio management includes implementation of necessary modifications to the credit strategy based on portfolio reviews or stress testing.

Policy of collateral acceptance

Apart from general rules of credit risk mitigation, the Bank has defined specific Corporate and Consumer rules of accepting, assessing, establishing and monitoring various types of collateral, including guarantees and similar forms of support (jointly: "collateral"). These rules serve to minimize the residual risk associated with collateral.

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

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

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

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

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

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

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

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

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

The principal type of collateral in GCB is an entry in the land and mortgage register for mortgage-secured loans. The Bank also uses bridge insurance to mitigate the risk of the borrower's default between the time of disbursement of a loan and the time of making an entry in the land and mortgage register.

The value of collateral is measured at each time on the basis of an expert valuation of real estate commissioned by the Bank. Expert valuations are reviewed by an independent valuation division according to valuation guidelines for real estate used as collateral of real estate loans for individuals who are GCB customers. The quality of the division's performance is monitored.

As at 31 December 2014, the financial effect of receivables recovered from collateral for receivables from customers with recognized impairment based on individual measurement in the Bank amounted to PLN 41,775 thousand (31 December 2013: PLN 107,262 thousand). This is how much higher the required impairment write-offs of the portfolio would be if the estimation of the write-offs did not include cash flows from such collateral.

Concentration of exposure

The Bank sets limits and manages exposures so as to ensure adequate risk diversification in the portfolio. In its credit risk management, the Bank defines exposure concentration limits related to the maximum exposure (as per internal reporting):

- against one obligor or a group of multiple obligors with common ownership and/or organization;
- against particular industries (based on the Bank's internal classification);
- in a specific foreign currency;
- resulting from transactions generating counterparty credit risk (pre-settlement);
- against the group of the Bank's parent entity;
- against mortgage-secured exposures;
- against retail credit exposures of the Consumer Bank Risk Division.

The first two concentrations (against obligors and industries), regarding in particular Corporate and Commercial Bank portfolios, are considered the most significant from the concentration risk management point of view in the Bank.

At portfolio level, concentration limits are approved and monitored on Bank level according to relevant Policy rules, primarily by the Risk and Capital Management Committee. Credit Risk and Business managers define (where appropriate) detailed internal concentration limits, control and reporting frequency and rules of approval for excesses and corrective action plans. All excesses of the limits are reported for approval by competent persons or the Risk and Capital Management Committee.

In the obligor exposure management process, the Bank also monitors the limits defined by the Banking Act and other supervisory resolutions to ensure compliance, including an additional capital requirement determined for these exposures when needed.

In hedge concentration, in accordance with S Recommendation, are settled and controlled appropriate limits of commitments hedged with mortgage.
In addition to current concentration levels monitoring in accordance to set limits; Bank monitors also potential geographical concentration and concentration resulting from indirect commitments – however in accordance to Bank's portfolio profile there were no limits set for this type of concentration.

Obligor exposure concentration risk

The Bank limits the concentration of its exposure to a single customer or a group of customers with common ownership and/or organization. As at 31 December 2014, the Bank's exposure in bank portfolio transactions with groups of customers whose aggregate exposure exceeded 10% of the Bank's equity (as defined below in this report) amounted to PLN 5,733,506 thousand, i.e., 118.0% of equity (31 December 2013: PLN 5,928,283 thousand, i.e., 127.6%). In 2014 and 2013 the Bank complied with the provisions on limits of concentration of exposure.

Concentration of exposure to the top 10 non-banking borrowers of the Bank:

PLN'000	31.12.2014			31.12.2013		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
GROUP 1	85,160	916,365	1,001,525	360,239	139,846	500,085
CLIENT 2	575,100	341,450	916,550	716,500	200,050	916,550
GROUP 3	660,806	107,837	768,643	412,479	169,411	581,890
GROUP 4	2	756,906	756,908	43,427	966,055	1,009,482
GROUP 5	184,949	442,417	627,366	157,436	575,257	732,693
GROUP 6	467,864	144,599	612,463	420,819	218,212	639,031
CLIENT 7	550,000	-	550,000	250,000	300,000	550,000
CLIENT 8	-	500,051	500,051	-	500,051	500,051
CLIENT 9	463,200	-	463,200	-	-	-
GROUP 10	220,486	176,527	397,013	323,687	174,815	498,502
Total 10	**3,207,567**	**3,386,152**	**6,593,719**	**2,684,587**	**3,243,697**	**5,928,284**

**Excluding investment in shares and other securities*

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

As at 31 December 2014, the Bank had an exposure to two entities exceeding the statutory exposure concentration limits. The excess exposure resulted from trade portfolio transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Bank's total capital requirement as at 31 December 2014.

*Concentration of exposure in individual industries**

Given that there is a large diversity of customers representing individual industries, the table below shows aggregate data for the Bank's gross exposure to the top 20 industries and by type of business in particular reporting periods.

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2014		31.12.2013	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	3,806,391	16.6%	4,026,214	18.4%
Financial intermediation, excluding insurance and pension funds	2,409,151	10.5%	2,483,781	11.4%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,191,652	9.5%	2,537,891	11.6%
Retail trade, excluding retail trade in vehicles	1,561,013	6.8%	1,297,340	5.9%
Production of food and beverages	1,376,794	6.0%	1,242,203	5.7%
Metal ore mining	1,001,440	4.4%	500,000	2.3%
Production and processing of coke and petroleum products	831,430	3.6%	903,130	4.1%
Manufacture of motor vehicles, trailers and semi-trailers, excluding motorcycles	627,480	2.7%	551,562	2.5%
Public administration and national defense, obligatory social security	624,132	2.7%	674,291	3.1%
Gum and plastic products manufacture	614,839	2.7%	407,024	1.9%

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2014		31.12.2013	
Top 10 business sectors	**15,044,322**	**65.5%**	**14,623,436**	**66.9%**
Warehousing and supporting transport services	611,550	2.7%	165,351	0.8%
Production of metal goods, excluding machines and equipment	565,328	2.5%	446,220	2.0%
Gross and retail cars trade, fixing cars	519,932	2.3%	672,524	3.1%
Construction of buildings	491,077	2.1%	460,380	2.1%
Production from other non-metallic minerals	440,597	1.9%	361,581	1.7%
Manufacture of chemicals and chemical products	416,413	1.8%	321,366	1.5%
Manufacture of electric appliances	393,911	1.7%	371,546	1.7%
Manufacture of machinery and equipment, not elsewhere classified	348,669	1.5%	364,493	1.7%
Production of basic pharmaceutical substances, medicines and other pharmaceutical products	340,538	1.5%	430,077	2.0%
Manufacture of furniture	330,924	1.4%	336,509	1.5%
Top 20 business sectors	**19,503,261**	**84.9%**	**18,553,483**	**84.8%**
Other sectors	**3,468,958**	**15.1%**	**3,318,275**	**15.2%**
Total	**22,972,219**	**100.0%**	**21,871,758**	**100.0%**

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

Gross amounts due from customers and banks by type of business

PLN'000		31.12.2014	31.12.2013
Gross amounts due from economic entities and banks			
Financial		3,323,511	3,642,923
Production		4,219,223	3,620,486
Services		768,663	328,034
Other		4,759,600	5,863,934
		13,070,997	**13,455,377**
Gross amounts due from individual customers		**6,280,037**	**5,819,072**
	(see Note 20, 24)	**19,351,034**	**19,274,449**

Management of impaired exposures

The active process of portfolio quality management includes both assigning appropriate risk ratings and classification to facilities as well as the application of remedial and debt collection actions. The Bank has put in place a uniform internal system for classification of receivables against predetermined criteria.

Credit exposures with identified impairment are divided into two categories. There is portfolio of exposures managed on the basis of individual classification (classifiable portfolio) and a portfolio of exposures managed on the basis of days of delinquency (delinquency managed portfolio). Eligibility for either portfolio depends on the amount of aggregate exposure to the customer and the exposure management process applied.

For customers in the classifiable portfolio, loans are treated as impaired when there is objective evidence of credit exposure impairment which may be a result of the following:

- Significant financial difficulty of the obligor;
- Breach of contract, such as default or delinquency in interest or principal payments;
- Granting the borrower a concession, which the lender would not otherwise consider, due to economic or legal reasons relating to the borrower's financial difficulty;
- High probability of customer bankruptcy or information on opened bankruptcy proceedings;
- National or local economic conditions that may be correlated with default of exposure;
- Payment overdue for more than 60 days;

- Significant deterioration of the customer's rating;
- Bank's petition for an enforcement procedure to be opened against the customer;
- Downgrade of the counterparty's rating by a recognized external credit rating institution accepted by the Bank.

For customers in the delinquency managed portfolio, loans are considered impaired as soon as a specified benchmark of days past due is met.

Risk Management regularly evaluates the adequacy of the established write-offs for impaired loans.

Customers in the classifiable portfolio (individual assessment)

Impairment is determined by estimating the exposure loss, case by case, and the following factors are considered:

- Aggregate exposure to the customer;
- The viability of the customer's business model and the capacity to successfully work out their financial difficulties;
- Generating sufficient cash flows to service debt obligations;
- The amount and timing of expected payments;
- The probability of meeting granted contingent commitments;
- The realizable value of collateral and the probability of successful repossession (considering all legal risks and hedge maintenance costs until disposal);
- The expected receipts due to enforcement, bankruptcy and liquidation;
- Estimation of possible expenses concerned in recovering outstanding amounts;
- Where appropriate, the market price of debt.

The Bank's policy requires the level of impairment write-offs on classifiable exposures that are above materiality thresholds to be reviewed at least quarterly. The review covers collateral held and an assessment of actual and anticipated payments.

Customers in the delinquency managed portfolio (portfolio assessment)

For exposures that are not considered individually significant, impairment is calculated on a portfolio basis, essentially when a specified benchmark of days past due is met. A formulaic approach is used which allocates progressively higher percentage loss rates the longer a customer's loan is overdue.

The tables below present the Bank's portfolio grouped by receivables from customers with established impairment and receivables without impairment. The tables also present the details of impairment write-offs. Impaired receivables are divided into the classifiable portfolio (individual assessment) and based on portfolio classification (portfolio assessment). Exposures without impairment are classified based on the internal risk ratings from 1 to 7, where risk category 1 is the best rating.

The internal risk ratings are received in the complex credit assessment's process, which consists of rating models and methodologies, additional corrections resulting among others from the acquired support and the security, and all the defined processes used in order to get risk ratings.

The risk rating defines the probability of breach of contract by the debtor within the 1 year period. Ratings from 1 to 4- inclusive are treated as the equivalent of ratings at investments level of external credit rating agencies, what implies that they indicate low or medium level of credit risk. Ratings below 4- indicate increased credit risk, wherein the rating 7 means high credit risk and low ability to service debt obligations, even in favorable macroeconomic conditions.

The main criterion of impairment for GCB customers is a delay in payment of the principal amount and interest, a minimum payable balance, a commission, or an exceeded balance limit. For purposes of impairment, it is assumed that the criterion is met when a payment is overdue for at least 90 days at the impairment assessment date.

Irrespective of delinquency days, impaired exposures include exposures for which the Bank has accepted a facilitation of payment (restructuring of debt), which it would otherwise not consider, due to economic or legal reasons relating to the financial difficulty of the customer, where the Bank does not receive an adequate compensation. Adequate compensation is understood as additional income earned, as a result of which the present value of cash flows is not lower than the carrying value before restructuring.

Additional criteria of impairment include:

- death, permanent disability or serious illness;
- fraud;
- information about initiated bankruptcy proceedings of the customer or bankruptcy declared by the customer;
- impairment or risk of impairment of collateral;
- detention or imprisonment of the customer;
- partial cancellation of the principal amount;
- termination of contract;
- petition of the Bank for an enforcement procedure to be opened against the customer.

The table below presents the maximum exposure of the Bank to credit risk:

PLN'000	Note	31.12.2014	31.12.2013
Gross receivables due from banks	20	2,068,494	3,541,095
Gross receivables due from corporate customers	24	11,002,503	9,914,282
Gross receivables due from individual customers	24	6,280,037	5,819,072
Debt securitites held-for-trading	21	7,096,875	2,215,673
Derivative instuments	21	5,624,460	3,531,126
Debt securities available-for-sale	22	14,435,099	17,616,041
Other financial assets	29	111,162	100,869
Contingent liabilities granted	42	16,863,376	16,187,925
		63,482,006	**58,926,083**

PLN'000	31.12.2014			31.12.2013		
	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks
Impaired receivables						
Individual receivables						
Gross amount	**366,804**	**10,822**	**-**	**472,522**	**8,400**	**-**
Impairment write-off	311,113	3,696	-	344,958	3,084	-
Net amount	**55,691**	**7,126**	**-**	**127,564**	**5,316**	**-**
Portfolio receivables						
Gross amount	**20,875**	**471,158**	**-**	**38,951**	**636,745**	**-**
Impairment write-off	9,187	342,305	-	17,587	471,977	-
Net amount	**11,688**	**128,853**	**-**	**21,364**	**164,768**	**-**
Not impaired receivables						
by risk rating						
Risk rating 1-4-	7,570,152	-	1,877,370	5,649,454	-	3,272,894
Risk rating+ 5-6-	2,810,538	-	191,124	3,549,952	-	267,476
Risk rating+7and greater	234,134	-	-	203,403	-	725

PLN'000	31.12.2014			31.12.2013		
	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks
by delinquency						
no delinquency	-	5,546,106	-	-	4,898,930	-
1–30 days	-	198,755	-	-	212,290	-
31–90 days	-	53,196	-	-	62,707	-
Gross amount	**10,614,824**	**5,798,057**	**2,068,494**	**9,402,809**	**5,173,927**	**3,541,095**
Impairment	21,020	49,317	2,880	23,618	60,747	1,173
Net amount	**10,593,804**	**5,748,740**	**2,065,614**	**9,379,191**	**5,113,180**	**3,539,922**
Total net amount	**10,661,183**	**5,884,719**	**2,065,614**	**9,528,119**	**5,283,264**	**3,539,922**

PLN'000	31.12.2014			31.12.2013		
	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks
Impairment write-offs for impaired receivables						
Impairment write-offs for individual receivables	**311,113**	**3,696**	**-**	**344,958**	**3,084**	**-**
Impairment write-offs for portfolio receivables	**9,187**	**342,305**	**-**	**17,587**	**471,977**	**-**
IBNR provisions						
by risk rating						
Risk rating 1-4-	2,209	-	347	1,381	-	303
Risk rating+5-6-	9,787	-	2,533	14,663	-	859
Risk rating +7 and greater	9,024	-	-	7,574	-	11
by delinquency						
no delinquency	-	18,545	-	-	22,628	-
1–30 days	-	12,245	-	-	14,764	-
31–90 days	-	18,527	-	-	23,355	-
	21,020	**49,317**	**2,880**	**23,618**	**60,747**	**1,173**
Total impairment write-offs	**341,320**	**395,318**	**2,880**	**386,163**	**535,808**	**1,173**

In case of receivables due from individual customers not impaired and without delay in payment, the Bank analyzes the quality of the credit portfolio in terms of delinquency history. From the amount of PLN 5,546,106 thousand in the end of 2014 (in 2013: PLN 4,898,930 thousand), the amount of PLN 288,910 thousand is related to receivables which from the moment of their arising at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days) and the amount of PLN 6,694 thousand is related to receivables which at least once have exceeded 90 days of delay in payment (respectively PLN 243,256 thousand and PLN 7,726 thousand in 2013).

Receivables not impaired by delinquency:

PLN'000	31.12.2014			31.12.2013		
	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks	Amounts due from corporate customers	Amounts due from individual customers	Amounts due from banks
Receivables with incurred but not recognized (IBNR) losses						
Regular receivables	10,606,037	5,546,106	2,068,494	9,392,499	4,898,930	3,541,095
Overdue receivables, including:	8,787	251,951	-	10,310	274,997	-
1-30 days	4,353	198,755	-	7,462	212,290	-
Gross amount	**10,614,824**	**5,798,057**	**2,068,494**	**9,402,809**	**5,173,927**	**3,541,095**

Structure of derivatives in terms of credit risk

PLN'000	31.12.2014			31.12.2013		
	Transactions with corporate customers	Transactions with retail customers	Transactions with banks	Transactions with corporate customers	Transactions with retail customers	Transactions with banks
Derivatives by risk rating						
Risk rating 1-4-	108,828	2,287	5,462,463	186,040	-	3,313,078
Risk rating+5-6-	25,521	-	22,906	13,474	-	16,600
Risk rating +7 and greater	2,451	-	3	1,920	-	13
Amount	**136,800**	**2,287**	**5,485,372**	**201,434**	**-**	**3,329,691**

The classification of exposures in the portfolio of debt securities held for trading and portfolio of debt securities available for sale by ratings agency Fitch is presented below

The portfolio of debt securities held-for-trading in the end of 2014 in the amount of PLN 7,096,875 (31 Decemvber 2013 : PLN 2,215,673 thousand) thousand includes debt securities with A issuer rating in amount of PLN 5,651,492 (31 December 2013: PLN 1,938,149 thousand) thousand and BBB- in amount of PLN 1,310,546 thousand (31 December 2013: PLN 277,524 thousand), BBB in amount of PLN 14,799 thousand and without rating in amount of PLN 120,038 thousand.

The portfolio of debt securities available-for-sale in the end of 2014 in the amount of PLN 14,435,099 thousand (in 2013: PLN 17,616,041 thousand) entirely includes debt securities with A issuer rating.

Other financial assets in amount of PLN 111,162 thousand in the end of 2014 (PLN 100,869 thousand in the end of 2013) include receivables with delinquency over 90 days in amount of PLN 1,278 thousand (PLN 6,327 thousand in the end of 2013).

Structure of granted contingent liabilities in terms of credit risk:

PLN'000	31.12.2014		31.12.2013	
	Liabilities due to corporate customers	Liabilities due to banks	Liabilities due to corporate customers	Liabilities due to banks
Granted contingent liabilities by risk rating				
Risk rating 1-4-	9,129,301	360,793	8,111,719	411,916
Risk rating+5-6-	1,977,844	41,370	2,492,482	7,966
Risk rating +7and greater	110,261	-	191,985	-
Amount	**11,217,406**	**402,163**	**10,796,186**	**419,882**

In case of granted contingent liabilities due to individual customers, the Bank analyzes the quality of the credit portfolio in terms of delinquency history. From the amount of PLN 5,243,807 thousand in the end of 2014 (in 2013: PLN 4,971,857 thousand), the amount of PLN 264,365 thousand is related to liabilities which from the moment of their arising at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days) and the amount of PLN 1,571 thousand is related to receivables which at least once have exceeded 90 days of delay in payment (respectively PLN 221,064 thousand and PLN 1,476 thousand in 2013).

The Banks's ratio of impairment write-offs to receivables is presented in the table below:

PLN'000	**31.12.2014**	**31.12.2013**
Gross amount		
Receivables with recognized impairment, including:	869,659	1,156,618
Individual receivables	377,626	480,922
Portfolio receivables	492,033	675,696
Receivables without recognized impairment	18,481,375	18,117,831
Total gross amount	**19,351,034**	**19,274,449**
Impairment write-offs		
Receivables with recognized impairment, including:	666,301	837,606
Individual receivables	314,809	348,042
Portfolio receivables	351,492	489,564
Receivables without recognized impairment	73,217	85,538
Impairment write-offs in total	**739,518**	**923,144**
Net amount		
Receivables with recognized impairment, including:	203,358	319,012
Individual receivables	62,817	132,880
Portfolio receivables	140,541	186,132
Receivables without recognized impairment	18,408,158	18,032,293
Total net amount	**18,611,516**	**18,351,305**
Ratio of impairment write-offs to receivables with recognized impairment	**76.6%**	**72.4%**

"Forbearance" practices

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

Bank 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 the financing conditions are changed is determined individually for each debtor in question. In particular, these activities include:

- receipt of assets;
- granting a new or restructured facility in partial or full satisfaction of a facility;
- modification of the terms of the existing facility, including rescheduling of future payments (e.g. extension of financing tenor), change of interest rate or methods of repayment, reduction of amount to be repaid (principal or accrued interest).

The process of assigning "forborne" status for exposures is closely related to the credit risk management process, including the impairment recognition process for exposures. According to the implemented process of impairment recognition, exposure status change to "forborne" constitutes an evidence of impairment and such exposure is in the portfolio of impaired loans.

The Bank assumes, that exposures will remain in "forborne" status until they are entirely paid off.

The "forborne" exposures are serviced by a specialized unit where the documented processes to ensure the correct identification ("forborne" exposures are indicated in the Bank accounting system), accounting, valuation, reporting and monitoring of these exposures are in place. Exposure values in “forborne” status as of end of 2014 are insignificant, that is why Bank monitors them at total level, without further portfolio splits.

w tys. zł	Wg stanu na dzień	
	31.12.2014	31.12.2013
Receivables without recognized impairment, including	16,412,879	14,576,737
non-financial sector entities	15,446,547	13,924,104
Corporate customers	9,648,489	8,750,177
Individual customers	5,798,058	5,173,927
Receivables with recognized impairment, including:	869,661	1,156,617
non-financial sector entities	850,665	1,137,621
Corporate customers, including:	368,685	492,477
„forborne”	63,529	95,882
Individual customers, including:	481,980	645,144
„forborne”	61,722	109,833
Total gross amount, including:	**17,282,540**	**15,733,354**
non-financial sector entities	16,297,212	15,061,725
Corporate customers, including:	10,017,174	9,242,654
„forborne”	63,529	95,882
Individual customers, including:	6,280,038	5,819,071
„forborne”	61,722	109,833
Impairment write-off	**(736,638)**	**(921,971)**
On „forborne” receivables	(76,273)	(124,952)
Total net amounts due from customers, including:	**16,545,902**	**14,811,383**
„forborne” receivables	48,978	80,763

LIQUIDITY RISK

The processes and organization of liquidity risk management

Liquidity risk is defined as the risk that the Bank may not be able to meet its financial commitments to customers or counterparties when due.

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

Liquidity risk management is based on:

- Applicable law, in particular on the Banking Law;
- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable management of the Bank as well general risk levels approved by the Supervisory Board of the Bank;

taking into account best market practice.

The ultimate responsibility for ensuring that the Bank operates under approved liquidity risk limits lies within the Management Board of the Bank, and ongoing market risk management is performed by:

- Member of the Management Board of the Bank – Head of the Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit.

Liquidity management

The objective of liquidity risk management is to ensure that the Bank has adequate access to liquidity in order to meet its financial obligations when due, including under extreme but probable stress conditions.

The Bank analyses and manages liquidity risk in several time horizons while distinguishing current, short-, mid- and long-term liquidity, to which appropriate risk measurement methods and limits apply.

Long-term liquidity management is the responsibility of ALCO and as such it is reflected in the Bank's strategy. It is based on the monitoring of balance sheet structural ratios and on long-term regulatory liquidity measures and includes the analysis of liquidity gaps, the ability to acquire in the future sufficient funding sources as well as funding costs in the light of the overall business profitability.

Mid-term liquidity management, in the one-year time horizon, is the responsibility of ALCO and is based on the process of the Annual Funding and Liquidity Plan defining the size of internal limits taking into account the business plans for assets and liabilities changes prepared by business units of the Bank as part of financial plans for the next budget year.

Short-term liquidity management, in the three-month time horizon, is the responsibility of the Treasury Division and is performed based on short-term regulatory liquidity measures as well as internal limits. In addition, the Bank analyses liquidity under stress scenarios, assuming the lack of liquidity gaps in all tenors up to three months as a necessary condition.

Current liquidity management is the responsibility of the Treasury Division and comprises the management of the balances on the Bank's nostro accounts and especially the mandatory reserve account with NBP while applying available money market products and central bank facilitates.

Funding and Liquidity Plan

The Head of the Bank's Treasury Division is responsible for preparing an annual Funding and Liquidity Plan ("Plan") for the Bank and obtaining the ALCO approval for the Plan. The Plan addresses all funding or liquidity issues resulting from businesses plans, especially in the customer deposits and loans area, as defined in annual budgets of particular business entities, as well any material changes in regulatory requirements and market dynamics.

Liquidity risk management tools

The Bank measures and manages liquidity risk by applying both external regulatory measures and additional internal liquidity measures.

Internal liquidity risk management tools

In addition to the regulatory liquidity measures, the Bank applies a range of liquidity risk management tools including:

- Gap analysis – Market Access Report (MAR);
- Stress scenarios;
- Liquidity ratios;
- Market Triggers;
- Significant Funding Sources;
- Contingency Funding Plan.

Stress scenarios

Stress tests are intended to quantify the potential impact of an event on the Bank's balance sheet and cumulative gap over a three-month period, and to ascertain what incremental funding may be required under any of the defined scenarios. The scenarios are proposed by the Bank's Treasury and Market Risk and approved by ALCO.

The Bank conducts the stress tests monthly. The scenarios assume material changes in the underlying funding parameters, i.e.:

- Concentration event;
- Highly Stressed Market Disruption (“S2”);
- Local market event.

Contingency Funding Plan

Treasury is responsible for the preparation and annual update of the Contingency Funding Plan, which defines the Bank’s action plan in case of a contingency, specifically in cases assumed in liquidity stress scenarios and described in the annual Funding and Liquidity Plan. The Contingency Funding Plan is approved by ALCO.

The Contingency Funding Plan defines:

- Circumstances / symptoms of contingency events;
- Responsibilities for executing the action plan;
- Sources of liquidity, and in particular the principles of maintenance of a liquid assets portfolio to be used in the case of a liquidity contingency;
- Rules for assets disposal and balance sheet restructuring;
- Procedures for restoring customer confidence.

The levels of the cumulative liquidity gap and the level of liquid assets as at 31 December 2014 and 31 December 2013 are presented below.

The cumulative liquidity gap as at 31 December 2014 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	1,785,270	-	-	-	47,818,107
Liabilities and equity	8,446,916	137,026	1,853,836	58,921	39,106,678
Balance sheet gap in the period	(6,661,646)	(137,026)	(1,853,836)	(58,921)	8,711,429
Contingent derivatives transactions – inflows	15,659,087	3,803,944	11,738,178	9,589,527	11,602,589
Contingent derivatives transactions – outflows	16,115,268	3,987,651	11,488,710	9,730,060	11,421,057
Off-balance-sheet gap in the period	(456,181)	(183,707)	249,468	(140,533)	181,532
Cumulative gap	(7,117,827)	(7,438,560)	(9,042,928)	(9,242,382)	(349,421)

The cumulative liquidity gap as at 31 December 2013 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	11,886,286	330,718	10,000	-	32,734,753
Liabilities and equity	8,692,210	643,002	1,485,820	29,156	34,111,569
Balance sheet gap in the period	3,194,076	(312,284)	(1,475,820)	(29,156)	(1,376,816)
Contingent derivatives transactions – inflows	15,932,787	894,564	6,969,708	9,803,307	13,624,421
Contingent derivative transactions – outflows	15,995,106	1,074,591	7,083,140	9,848,427	13,559,271
Off-balance-sheet gap in the period	(62,319)	(180,027)	(113,432)	(45,120)	65,150
Cumulative gap	3,131,757	2,639,446	1,050,194	975,918	(335,748)

Liquid assets and the cumulative liquidity gap up to 1 year:

PLN'000	31.12.2014	31.12.2013	Change
Liquid assets, including:	22,752,411	20,243,696	2,508,715
nostro account in NBP and stable part of cash	1,220,437	411,982	808,455
debt securities held-for-trading	7,096,875	2,215,673	4,881,202
debt securities available-for-sale	14,435,099	17,616,041	(3,180,942)
Cumulative liquidity gap up to 1 year	(9,042,928)	1,050,194	(10,093,122)
Coverage of the gap with liquid assets	254%	Positive gap	

Financial liabilities of the Bank, by contractual maturity, are presented below. Presented amounts do not include the impact of the effective rate on interest liabilities.

As at 31 December 2014

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	31	5,004,196	2,821,012	72,758	1,849,391	228,628	32,407
Financial liabilities held-for-trading							
Short positions in financial assets	21	1,005,545	1,005,545	-	-	-	-
Amounts due to customers, including:	33	**29,803,547**	**28,996,023**	**488,174**	**306,885**	**12,465**	**-**
Deposits from financial sector entities	33	3,328,620	3,282,081	42,988	2,912	639	-
Deposits from non-financial sector entities	33	26,342,276	25,631,325	429,838	269,667	11,446	-
Other liabilities	33	132,651	82,617	15,348	34,306	380	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	21	5,021,507	60,576	105,369	451,135	2,929,929	1,474,498
Unused credit lines liabilities	42	13,421,725	12,018,056	76,320	141,646	974,907	210,796
Guarantee lines	42	1,779,425	1,779,425	-	-	-	-
		56,035,945	**46,680,637**	**742,621**	**2,749,057**	**4,145,929**	**1,717,701**
Derivatives settled on a gross basis							
Inflows		51,920,356	16,351,513	3,801,719	11,574,861	15,281,939	4,910,324
Outflows		52,075,612	16,415,101	3,848,204	11,598,305	15,287,830	4,926,172
		(155,256)	**(63,588)**	**(46,485)**	**(23,444)**	**(5,891)**	**(15,848)**

As at 31 December 2013

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	31	6,172,962	3,880,709	622,080	1,501,255	168,918	-
Financial liabilities held-for-trading							
Short positions in financial assets	21	481,601	481,601	-	-	-	-
Amounts due to customers, including:	33	**26,634,381**	**25,896,752**	**376,695**	**350,236**	**10,698**	**-**
Deposits from financial sector entities	33	3,346,995	3,325,248	10,448	10,677	622	-
Deposits from non-financial sector entities	33	22,803,333	22,145,915	349,047	300,069	8,302	-
Other liabilities	33	484,053	425,589	17,200	39,490	1,774	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	21	3,044,118	80,830	126,408	341,065	2,072,808	423,007
Hedging derivatives		24,710	-	-	-	23,798	912
Unused credit lines liabilities	42	12,524,677	11,576,824	4,513	173,861	682,404	87,075
Guarantee lines	42	1,775,108	1,775,108	-	-	-	-
		50,657,557	**43,691,824**	**1,129,696**	**2,366,417**	**2,958,626**	**510,994**
Derivatives settled on a gross basis							
Inflows		46,996,914	16,766,477	1,091,584	6,470,021	18,778,066	3,890,766
Outflows		47,352,634	16,694,117	1,104,269	6,573,129	19,072,989	3,908,130
		(355,720)	**72,360**	**(12,685)**	**(103,108)**	**(294,923)**	**(17,364)**

MARKET RISK

The processes and organization of market risk management

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

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

Market risk management in the Bank is based on:

- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable management of the Bank as well general risk levels approved by the Supervisory Board of the Bank;

taking into account best market practice.

The ultimate responsibility for ensuring that the Bank operates under approved market risk exposure limits lies within the Management Board of the Bank, and ongoing market risk management is performed by:

- Member of the Management Board of the Bank – Head of the Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit;
- Heads of risk-taking business units;
- Persons delegated to risk management in Bank entities.

Market risk management

Scope of risk

Market risk management applies to all portfolios generating income exposed to the negative impact of market factors including interest rates, foreign exchange rates, equity prices, commodity prices and the parameters of their volatility. Two types of portfolios have been defined for the purpose of market risk management: trading portfolios and bank portfolios.

The trading portfolios include transactions in financial instruments (balance-sheet and off-balance-sheet instruments) expected to generate income owing to change in market parameters over a short period. The trading portfolios include balance-sheet items such as debt securities held-for-trading, i.e., debt securities acquired to be further traded and meeting pre-defined liquidity criteria, as well as all derivative instrument positions broken down into portfolios acquired purely for trading and transactions executed in order to provide an economic hedge of bank portfolio positions. The trading portfolios are valued directly at market prices or using market pricing-based valuation models. The trading portfolio operations are performed by the Bank's Treasury Division in respect of interest rate risk portfolios and FX risk portfolios. The trading portfolio also includes options, manly foreign exchange options and interest rate options and optional structures being reflection of economic nature and risk resulting from products offerted to customers of the Bank. In this area, the Bank concludes transactions in a way which ensures concurrent (at each time and immediate) conclusion of an opposite transaction with the same parameters and, in consequence, the option portfolio does not generate open exposition of market risk. The only item related to the conclusion of option transactions which is reflected in market risk measurement, and in particular in foreign exchange risk, is the premium paid/received in a foreign currency.

The bank portfolios include all other balance-sheet and off-balance-sheet positions not assigned to any of the trading portfolios. The transactions are executed to realize a profit over the entire contracted transaction period. The Bank's Treasury Division takes over the interest rate risk positions held in the bank portfolios of all other organizational units of the Bank. The mechanism of transferring the interest rate risk positions is based on the transfer price system.

Measurement of the pricing risk of the bank portfolios

The Bank typically uses the following methods for measuring the risk of the bank portfolios:

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

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

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

It is assumed that:

- transactions with a fixed interest rate (such as term deposits, interbank deposits, portfolio of debt securities available-for-sale with a fixed interest rate, granted loans both repaid in full at maturity and repaid in installments) are classified into appropriate revaluation bands in accordance with their maturity dates;
- transactions with a floating interest rate, updated at a regular frequency (primarily, loans granted with interest set based on a specific base/market 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 Treasury Division for the purpose of management of interest rate risk and liquidity risk (Treasury Division'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.

The table below presents the IRE measures for the Bank as at 31 December 2014 and 31 December 2013. The list has been broken down into the main currencies, i.e., PLN, USD and EUR, which jointly account for over 90% of the Bank's balance-sheet.

PLN'000	31.12.2014		31.12.2013	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	50,835	148,535	51,659	212,422
USD	2,173	(16,162)	5,588	6,970
EUR	19,494	(1,274)	16,589	(5,442)

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 Bank 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 Bank's operation.

Activities relating to securities available-for-sale are the responsibility of the Assets and Liabilities Management Bureau within the Treasury Division. Three basic goals of activities in the portfolio of securities available-for-sale have been defined as follows:

- management of the Bank's liquidity;
- hedging against the risk transferred to the Treasury Division from other organizational units of the Bank;
- opening of own interest rate risk positions on the Bank's books by the Treasury Division.

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), which determines the potential change in the value of risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given time horizon), caused by a shift in the market interest rate by 1 basis point upwards are established for this kind of portfolio. The limits also concert the open positions in derivatives (i.e. interest rate swap transactions), carried out to hedge the fair value of the portfolio.

Hedge accounting program

In addition to the general rules limiting market risk, in particular, interest rate risk, the Bank has defined rules for the application of fair value hedge accounting. The main risk, which is hedged under hedge accounting is the risk of changes in interest rates resulting from holding portfolio of securities available for sale (AFS) with fixed interest rates. At the end of each month, when the hedging relation happened, the Bank shall evaluate the effectiveness of the hedging instrument used, by analyzing the changes in the fair value of the hedged and hedging instrument in respect of the risk being hedged.

The hedged item was part of a portfolio of securities available for sale at a fixed interest rate, denominated in PLN and EUR. In all cases, the hedging instrument was the interest rate swap (IRS), which converts the fixed interest rate on a variable. Gains and losses arising from revaluation at fair value of the hedging instrument and changes in the fair value of the hedged items are reflected - in part resulting from the hedged risk - in profit and loss item "Net income from hedge accounting."

The table below presents the risk measured with DV01 for the portfolio of securities available-for-sale, including the economic collateral, broken down by currency:

PLN'000	31.12.2014			31.12.2013			Total in the period 01.01.2014 – 31.12.2014		
	Total	Securities	IRS	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(2,434)	(2,434)	-	(911)	(1,799)	888	(1,907)	(875)	(2,775)
USD	(447)	(447)	-	(118)	(118)	-	(355)	(119)	(532)
EUR	(556)	(556)	-	(503)	(647)	144	(597)	(460)	(774)

The Bank's activities involving investments in debt securities available-for-sale were also one of the main factors influencing changes in the level of the risk of mismatch in revaluation periods as expressed by the IRE measure.

Measurement of the market risk of the trading portfolios

The following methods are applicable in measurement of the risk of the trading portfolios:
- Factor Sensitivity;
- Value at Risk (VaR); and
- Stress testing.

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

In the case of interest rates, the applicable sensitivity measure is DV01.

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

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

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

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

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

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

The values of significant exposures to the interest rate risk of the trading portfolios in terms of DV01 in 2014 are presented in the table below:

PLN'000	**31.12.2014**	**31.12.2013**	**In the period 01.01.2014 – 31.12.2014**		
			Average	**Maximum**	**Minimum**
PLN	(27)	164	(12)	650	(477)
EUR	(250)	(76)	(182)	83	(565)
USD	(36)	65	(21)	134	(189)

Average exposure to the interest rate risk in the local currency in 2014 was higher than level from the previous year and amounted PLN 172 thousand. Average exposures to the interest rate risk in EUR and USD were smaller than in 2013 (e.g., DV01 in EUR amounted PLN 186 thousand, compared to PLN 243 thousand in the previous year). Most of the biggest exposures accepted by the Treasury Division were smaller than in the previous year. The maximum exposure in PLN was PLN 650 thousand compared to PLN 726 thousand in 2013 and the position in EUR amounted to PLN 565 thousand compared to PLN 784 thousand in the previous year.

The Treasury Division, which trades in financial instruments within the Bank, continued the strategy of very active management of exposures to FX risk and interest rate risk by adjusting the volume and direction of such exposures depending on changing market conditions, which is reflected in the range of volatility of these exposures (the minimum and the maximum values in the table above).

The table below presents the levels of risk measured by VaR (net of economic hedges of the portfolio of securities available-for-sale) broken down by FX risk and interest rate risk position in 2014:

PLN'000	31.12.2014	31.12.2013	In the period 1.01.2014 – 31.12.2014		
			Average	Maximum	Minimum
FX risk	471	1,629	717	3,128	58
Interest rate risk	5,962	3,803	6,064	11,666	2,784
Spread risk	8,910	8,068	8,800	10,022	7,259
Overall risk	10,763	9,181	10,910	15,513	8,336

The overall average level of the market risk of the trading portfolios was 25% smaller in 2013 than the average level in 2013, representing an increase by over PLN 3,613 thousand, mainly as a result of smaller exposures to basis spreads. The maximum price risk level was PLN 15,513 thousand, compared to PLN 22,221 thousand in 2013.

Equity instruments risk

In its trading activity, the Bank is not exposed to the price risk of equity instruments. The Bank's equity investment portfolio is not a trading portfolio.

The Bank's FX exposure

The table below presents the Bank's FX exposure by main currencies:

31.12.2014

PLN'000	Balance-sheet transactions		Contingent derivatives transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,832,126	5,939,918	8,849,494	6,632,396	109,306
USD	2,571,280	2,093,987	2,660,851	3,188,933	(50,789)
GBP	130,358	155,196	28,289	3,907	(456)
CHF	664,552	86,630	22,648	599,256	1,314
Other currencies	1,082,476	71,961	1,002,056	2,014,879	(2,308)
	8,280,792	**8,347,692**	**12,563,338**	**12,439,371**	**57,067**

31.12.2013

PLN'000	Balance-sheet transactions		Contingent derivatives transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	5,860,567	8,452,728	6,979,618	4,292,134	95,323
USD	4,003,437	4,807,870	3,379,668	2,588,651	(13,416)
GBP	832,900	839,542	5,967	-	(675)
CHF	851,969	450,451	25,111	426,431	198
Other currencies	746,335	737,968	344,564	354,871	(1,940)
	12,295,208	**15,288,559**	**10,734,928**	**7,662,087**	**79,490**

OPERATIONAL RISK

Operational Risk definition

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

Operational Risk includes reputation and franchise risk associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk (defined below).

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.

Definition of Operational Risk covers:

- Technological and technical risk – risk of disruption of entity's activity due to technology infrastructure and telecommunications systems failure;
- Outsourcing risk – operational risks associated with the outsourcing of the Bank outsourced certain activities, which may result in a negative impact on the continuity, integrity, stability or quality of the Bank's activities;
- Misappropriation risk – risk connected with willful act to the detriment of entity by its employees or third parties;
- Money Laundering risk – risk of losses due to involvement in money laundering activity conducted by customers, intermediaries or employees;
- Information Security risk – risk of disruption of entity's activity or financial losses due to insufficient security of its resources and information;
- External Events risk (Continuity of Business) – risk of inability of activity continuation by an entity or risk of losses occurring due to extraordinary event, such as earthquake, fires, floods, terrorism, lack of access to the headquarters or media;
- Tax and Accounting risk – risk of negative economical effects due to improper accountancy records, reporting, mistaken calculation of tax obligations or their delayed payments;
- Product risk – risk connected with the sale of product (service), which doesn't meet customers' requirements and needs, is not compliant with the law and regulations, generates additional risks (for an entity and its customers), doesn't have adequate support of the employees and processes;
- Compliance risk – risk of noncompliance with binding legal and regulatory rules, internal Bank's regulations and Bank's Code of Conduct;
- Legal risk – risk of losses occurring due to instability of legal regulations, changes of law, improper structure of legal relationships, quality of legal documentation, unfavorable conclusions of courts or other bodies in disputed cases, conducted with other entities;
- Models risk – risk of implementation of improperly defined models, parameters, improper application of models or lack of updates. Elements, which are assessed:

    - Data – risk resulting from utilization in models construction improper, unreliable or incomplete data;
    - Forecast – risk resulting from assumptions and simplifications, applied during models constructions or defining parameters;
    - Estimation – risk resulting from utilization in model construction or defining parameters improper tools, techniques or methods (including statistical ones);
    - Administration – risk of improper application and operation of models due to their inadequate monitoring, validation and updating.

- Staffing risk – risk connected with recruitment, availability and professional qualification of employees, their fluctuation, ability to adapt to changes in work environment, work culture, absenteeism, tiredness, inadequate or not adjusted to the scale and complexity organizational structures and similar factors, which may lead to operational losses connected with human factor.

Coordination of the management of the above risk categories rests with specialized Units, according to the competences determined in the Bank's Organizational Regulations, Organizational Regulations of sectors, sub-sectors, organizational units and internal procedures. Processes of identification, measurement (assessment), mitigation, control, monitoring and reporting of the above risk categories must be consistent with the principles determined in Strategy of Operational Risk Management.

Main Purposes of Operational Risk Framework

- Providing a single coherent and effective approach to identification, assessment, mitigation, control, monitoring and reporting of operational risk;
- Ensuring effective reduction of the operational risk exposure, and as a consequence, reduction of operational risk events' number and the severity of their consequences (low tolerance policy for operating losses),
- Ensuring compliance with regulatory requirements regarding capital requirements for operational risk,
- Ensuring compliance with regulations connected with operational risk management.

Operational Risk Management Process

Supervisory Board approves, presented by the Management Board, Bank's Strategy, "Principles of Prudent and Stable Risk Management in the Capital Group of Bank Handlowy w Warszawie S.A." and Operational Risk Management Strategy, addressing operational risk inherent in banking activity and determining operational risk management strategy.

Based on synthetic reports presented by the Management Board at least once a year, covering scale and types of operational risk the Bank is exposed at, operational risk management principles, probability of risk occurrence, assessment of its possible negative impact and the operational risk profile, the Supervisory Board, supported by Audit Committee and Risk and Capital Committee, assesses realization of strategy (including in view of principles of operational risk management) and, if necessary, orders it's revision.

Supervisory Board supervises and assesses adequacy and effectives of operational risk management. Supervisory Board is supported by Committees for Supervisory Board - Audit Committee, Risk and Capital Committee and Remuneration Committee.

Management Board is responsible for preparation and implementation of a written operational risk management strategy and for design of operational risk management system, its implementation, ensuring consistency with the operational risk management strategy and proper functioning of this system in the entire Bank. Where necessary the Management Board should introduce necessary amendments aiming at improvement of this system.

Within the scope of operational risk management, Management Board approves:

- applied by the Bank definition of operational risk, characterizing in clear and unambiguous way operational risk,
- ultimate operational risk profile, considering scale and structure of operational risk exposure,
- appetite/tolerance for operational risk, including thresholds of total losses in particular Events Category, within specified time frame, and particular actions, which will be undertaken by the Bank, in case the thresholds are exceeded
- general principles of risk management, including risk identification, assessment, monitoring, mitigation and transfer
- principles of control system for the operational risk
- minimum thresholds for collection of operational loss data

Operational risk management strategy is defined with consideration of processes indispensable for operational risk management, particularly: scope of Bank activities, priorities of management plans and business strategy, availability of funds covering operational losses, organizational structure of the Bank, operational risk profile and changes planned in those areas.

Operational risk management principles and procedures, defined in Operational Risk Management Strategy and Operational Risk Management Policy and Manager's Control Assessment Procedure, refer to all Bank activities. Management Board ensures organizational structure, processes and resources adequate to the conducted activities and allowing effective operational risk management. Management Board utilizes internal audit, control and management information system reports, to fulfill that requirement, to identify potential areas requiring changes and to implement actions required to bring the organization into compliance with the above requirement.

Management Board ensures public disclosure of general approach to the operational risk management in order to allow evaluation of the approach by other market players. Market disclosures are published on the Bank's internet site, in the Annual Consolidated and Solo Financial Reports as well as in Capital Adequacy documentation.

Within Management Board, one of its members – Risk Management Sector Head - supervises unit responsible for operational risk management.

Management Board is supported by Risk and Capital Management Committee and subordinated Operational Risk, Control and Compliance Commissions (BRCC Commissions):

- Operational Risk, Control and Compliance Commission for Corporate and Investment Bank, Risk Management (excluding Consumer Bank Risk Division), Management and Support Sectors (ICG BRCC) and
- Operational Risk, Control and Compliance Commission for Consumer Bank Sector and Consumer Bank Risk Division in the Risk Management Sector (GCG BRCC).

Manager's Control Assessment process and monitoring of Key Risk Indicators or Risk and Control Indicators support ongoing identification, measurement (assessment), control, monitoring and reporting of quality of the control environment and potential threats. Data on operational risk events' effects (losses) is regularly collected and analyzed, to ensure effective risk management. Regular monitoring processes, centralization and automation allow elimination of recurring losses and maintenance of the operational losses within established risk appetite/tolerance.

The Bank manages the operating risk using a variety of tools and techniques including the policies, procedures, checklists, approving processes, independent controls, monitoring of trends and limits, self-assessment process, key risk indicators, information security control tools, contingency plans, insurance, and audits.

Arrangement and execution of effective operational risk management process in Bank's subsidiaries rests with Management Boards. Management Boards of those subsidiaries assure adequacy of organizational structures and implementation of processes and procedures aligned with undertaken operational risk. Supervisory Boards of subsidiaries maintain surveillance over operational risk management system and assess its effectiveness and adequacy. Cohesion of operational risk management standards is provided by relevant units in subsidiaries, supported by Bank operational risk management unit. Effectiveness of operational risk management in Bank's subsidiaries and Bank is audited and assessed against consistent criteria.

Internal Control system in scope of Operational Risk

The structure of the control system includes:

- Recognized ownership of the risk by the businesses generating the risk,
- Oversight by independent risk operational risk management unit,
- Independent review by Audit and Risk Review (IA).

Control processes introduced across the Bank mitigate causes, reduce reasons of negative effects of operational events' (including operational losses), reduce the probability of events' occurrence and minimize the severity of effects. Examples of control mechanism include segregation of duties (maker-checker), Know Your Customer (KYC) Policy, controlled and reviewed allocation of system access, monitoring of established limits, accounts proofing and reconciliation, verification of data integrity, monitoring of aged items, monitoring of corrective actions, customers' claims monitoring, correction of identified errors and remediation of its causes, fraud preventing measures, training, procedures preventing conflict of interest, employee personal trading pre-clearance. Risk mitigation measures include also risk transfer mechanisms (outsourcing, insurance).

Each Business Unit must establish an appropriate system of controls that are commensurate with the level of operational risk and other risks being managed, including proper documentation of the control procedures and appropriate staff training. Each Business Unit must evaluate the risks that are unacceptable or outside of the Business Unit's risk appetite/tolerance and determine the appropriate actions for their mitigation or transfer.

Additionally, periodic assessment of adequacy and effectiveness of controls (Manager's Control Assessment), covers monitoring and testing of the adequacy and effectiveness of the Key Controls, at a frequency commensurate with the underlying risk and frequency of the control, and independent review by internal audit. In case of identification of deficiency or an area of unacceptable risk, the management of the Business Unit is responsible for formulating a corrective action plan to resolve these deficiencies. Completion of corrective actions falls under independent monitoring and control.

Continuity of Business (CoB) plans, aiming at reduction of operational risk exposure, are prepared according to international standards. Quality of those processes is confirmed with a certificate of compliance with BS 25 999 issued by UKAS (United Kingdom Accreditation Service).

The Bank manages compliance risk, which is defined as all and any effects of non-compliance with laws, including international regulations or laws of other jurisdictions which are relevant to the Bank's operation, internal regulations and the Bank's code of conduct. Compliance with laws, internal regulations, corporate regulations, standards of conduct and good practice standards is an integral part of the professional duties of each employee of the Bank. It is the responsibility of the Bank's Management Board to effectively manage compliance risk, develop a compliance policy, ensure that it is followed and take corrective or disciplinary action in the event of any irregularities in applying the Bank's compliance policy. Compliance is the Bank's unit which supports the Bank's Management Board and business units and monitors the Bank's subsidiaries to ensure compliance of the Bank's operation with laws, internal standards, regulations and Citigroup policies. Compliance is an independent function, comprising compliance risk identification, assessment, monitoring, testing, reporting and consulting and ensuring compliance with laws, the Bank's internal regulations, codes of conduct and good practice standards. As the unit responsible for coordination and monitoring of compliance in the Bank, the Compliance Department reviews and assesses the Bank's compliance risk management process on an annual basis, in implementation of the Annual Compliance Plan, and submits relevant reports to the Bank's Management Board and Supervisory Board.

Pursuant to legal regulations, the Bank can outsource to third parties the performance, on behalf and for the benefit of the Bank, of intermediation in banking activities on the basis of an agency contract, as well as factual activities relating to banking operations (outsourcing). All decisions to outsource activities relating to banking activity are in the sole discretion of the Bank's Management Board. The use of third party services gives a greater number of customers access to information on the services and products offered by the Bank as well as access to new technological solutions. The Bank intends to use the possibility of outsourcing activities relating to banking activity, particularly in areas of information technology and in cases where outsourcing is justified by business needs and at the same time does not endanger secure operation of the Bank. As outsourcing involves not only benefits but also increased risk, which the Bank can be exposed to in its operation, the Bank takes measures aimed at mitigating that type of risk, particularly by ensuring compliance with legal requirements and internal regulations, operating an effective system of internal control, and monitoring co-operation with third parties, security of processed information and privileged banking information.

Staffing risk is monitored based on staff rotation indicators, opinions of employees, and market levels of staff remuneration and benefits. The Talent Inventory Review conducted on an annual basis constitutes an important part of the Bank's HR policy. The process enables identification of persons critical to respective processes together with their potential replacements, who are being prepared to take over relevant key positions through a cycle of training and development programs. With this process, the Bank is able to ensure continuity of staffing of the key positions.

The Bank uses a corporate insurance program in order to reduce operational risk exposure. Under the program, losses exceeding defined limits are covered by corporate insurance.

Monitoring and reporting

Risk and Capital Management Committee, supported by Commissions, is accountable for ongoing monitoring of operational risk. Detected issues, corrective actions, operational events and operating risk indicators are subject of regular reports, submitted to relevant Committees.

Quality and effectiveness of operational risk management processes (including the self-assessment process) in the respective organizational units are subject of inspections and assessment carried out by the internal audit.

Operational Risk reports, regularly presented to the respective Committees and Commissions cover data allowing monitoring of the Bank's operational risk profile:

- Results of internal and external audits,
- Self-Assessment Results,
- Results of Key Risk Indicators (KRI) monitoring,
- Operational Risk Events (operational losses), also in comparison to revenues for major business units of the Bank,
- Information about Control Issues and CAPs,
- COB and Information Security – updates and issues,
- Results of compliance risk monitoring
- Analysis of claims
- Capital requirements,
- Stress Tests
- Information and events that may considerably increase operational risk exposure or may lead to considerable operational losses

Appetite/tolerance for operational risk

Operational risk appetite/tolerance for operational risk (defined in Recommendation M), are terms used jointly to define overall risk level, which Bank is ready and willing to accept a priori (risk appetite) and also factual limits within the appetite (tolerance for operational risk).

In line with the applied standards, Bank maintains limited level of tolerance for residual operational risk. Organizational units are obliged to identify and mitigate operational risk through effective control processes. In areas requiring specialized knowledge, Bank established centralized units, managing processes generating considerable operational risk exposure. Operational risk generated in manual processes is mitigated through automations and technical solutions.

Appetite/tolerance for operational risk and tolerance limits are monitored by unit responsible for operational risk management on a quarterly basis. Results of the monitoring are reported to BRCC Commissions and committees supporting Management Board and Supervisory Board.

Target operational risk profile, considering scale and structure of operational risk

Operational Risk Profile – scale and structure of exposure to operational risk, defining the level of exposure to operational risk, expressed in selected by the Bank structural measures (e.g. types of operational risk events, types of business lines, significant processes) and scale measures (e.g. assessed potential loss). Bank defines operational risk profile based on operational loss data and based on information gathered through utilized operational risk management tools.

Stress tests

Operational Risk stress tests are conducted annually, unless the ongoing monitoring of the level of exposure to operational risk shows deterioration, resulting in the need for further testing.

EQUITY MANAGEMENT

According to the Banking Act, banks in Poland are obliged to maintain equity at a level adequate for their specific business risks.

The Bank's equity amounted to PLN 7,348,585 thousand as at 31 December 2014 (as at 31 December 2013: PLN 7,221,222 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 4,860,152 thousand (as at 31 December 2013: PLN 4,647,512 thousand) Such capital level is considered sufficient for conducting business activity. The capital level is regularly monitored by using the capital adequacy ratio.

In 2008, the Bank launched the process of estimating internal capital. The Bank identified significant risks and assessed the capital required for coverage of these risks.

The Bank determines a policy of future dividend payment to the shareholders as part of the capital management process. The dividend policy depends on a number of factors including the Bank's profits, the Bank's expectations concerning future financial results, the level of capital requirements, as well as tax, regulatory and legal issues.

Financial data necessary to calculate the Bank's capital adequacy ratio is presented in the table below:

Capital adequacy ratio*

	PLN'000	31.12.2014	31.12.2013
I	**Common Equity Tier 1 Capital**	**4,860,152**	**4,647,514**
II	**Total capital requirements, including:**	**2,254,224**	**2,185,198**
	credit risk capital requirements (II*8%)	1,586,165	1,478,662
	counterparty risk capital requirements	87,247	80,127
	Credit valuation correction capital requrements	54,648	-
	excess concentration and large exposures risks capital requirements	66,774	100,544
	total market risk capital requirements	108,166	156,088
	operational risk capital requirements	341,347	354,377
	other capital requirements	9,877	15,400
	Common Equity Tier 1 Capital ratio	**17.2%**	**17.0%**

**Capital Adequacy Ratio calculated according to the current at a given reporting moment rules, appropriately: on 31 December 2014 accordign to the rules specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012; on 31 December 2013 calculated according to the rules set out in Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 concerning the scope and detailed rules of calculation of capital requirements in respect of particular risks (KNF Official Journal No. 2, item 11, as amended).*

In 2014, as well as in 2013, the Bank complied with all the regulatory prudential standards on capital adequacy.

Signatures of Management Board Members

Date	Name	Position/function	Signature
13.03.2015 roku	Sławomir S. Sikora	President of the Management Board	
13.03.2015 roku	Brendan Carney	Vice-President of the Management Board	
13.03.2015 roku	Maciej Kropidłowski	Vice-President of the Management Board	
13.03.2015 roku	Barbara Sobala	Vice-President of the Management Board	
13.03.2015 roku	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	
13.03.2015 roku	Iwona Dudzińska	Member of the Management Board	
13.03.2015 roku	Czesław Piasek	Member of the Management Board	