TRANSLATION

Capital Group of Bank Handlowy w Warszawie S.A.

Annual Report 2015

March 2016

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2015	2014	2015	2014
Interest income	1,232,413	1,489,071	294,497	355,446
Fee and commission income	709,435	726,196	169,527	173,345
Profit before tax	790,775	1,167,710	188,964	278,736
Net profit	626,419	947,312	149,689	226,127
Total comprehensive income	410,813	1,038,094	98,168	247,797
Increase/decrease of net cash	621,437	612,753	148,499	146,266
Total assets	49,506,792	49,843,665	11,617,222	11,694,077
Amounts due to banks	6,963,561	5,122,576	1,634,063	1,201,834
Amounts due to customers	31,586,303	29,632,598	7,412,015	6,952,255
Shareholders' equity	6,850,656	7,410,760	1,607,569	1,738,676
Share capital	522,638	522,638	122,642	122,619
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	52.43	56.72	12.30	13.31
Capital adequacy ratio (in %)	17.1	17.5	17.1	17.5
Earnings per share (PLN/EUR)	4.79	7.25	1.15	1.73
Diluted net earnings per share (PLN/EUR)	4.79	7.25	1.15	1.73
Declared or paid dividends per share (PLN/EUR)*	4.68	7.43	1.10	1.74

**The presented ratios are related to declared dividend from the appropriation of the 2015 profit and dividend paid in 2015 from the appropriation of the 2014 profit.*

***The following foreign exchange rates were applied to convert PLN into EUR: for the consolidated statement of financial position - NBP mid exchange rate as at 31 December 2015 - PLN 4,2615 (as at 31 December 2014: PLN 4.2623); for the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement – the arithmetic mean of NBP end-of-month exchange rates in 2015 – PLN 4,1848 (in 2014: PLN 4.1893).*

TRANSLATION

THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. FOR THE FINANCIAL YEAR ENDED

31 DECEMBER 2015

MARCH 2016

CONTENTS

Consolidated income statement

PLN'000 For the period	Note	2015	2014
Interest and similar income	4	1,232,413	1,489,071
Interest expense and similar charges	4	(255,813)	(325,128)
Net interest income	4	**976,600**	**1,163,943**
Fee and commission income	5	709,435	726,196
Fee and commission expense	5	(78,085)	(107,265)
Net fee and commission income	5	**631,350**	**618,931**
Dividend income	6	**7,382**	**5,783**
Net income on trading financial instruments and revaluation	7	**293,118**	**382,160**
Net gain on debt investment securities available-for-sale		**145,246**	**229,922**
Net gain on capital investment instruments available-for-sale		**2,232**	**6,429**
Net gain on hedge accounting	8	**7,949**	**(379)**
Other operating income	9	40,139	52,266
Other operating expenses	9	(52,309)	(41,681)
Net other operating income	9	**(12,170)**	**10,585**
General administrative expenses	10	**(1,207,875)**	**(1,202,516)**
Depreciation expense	11	**(70,422)**	**(71,364)**
Profit/loss on sale of other assets	12	**102**	**6,384**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	13	**17,202**	**17,804**
Operating profit		**790,714**	**1,167,682**
Share in net profits of entities valued at equity method		**61**	**28**
Profit before tax		**790,775**	**1,167,710**
Income tax expense	14	**(164,356)**	**(220,398)**
Net profit		**626,419**	**947,312**
Including:			
Net profit attributable to the Bank's shareholders		626,419	947,312
Weighted average number of ordinary shares (in pcs)	15	130,659,600	130,659,600
Net earnings per share (PLN)	15	4.79	7.25
Diluted net earnings per share (PLN)	15	4.79	7.25

Explanatory notes on pages 11-88 are an integral part of the annual consolidated financial statements.

Consolidated statement of comprehensive income

PLN'000 For the period	Note	2015	2014
Net profit		**626,419**	**947,312**
Other comprehensive income, that might be subsequrently reclassified to profit or loss:			
Net valuation of financial assets available-for-sale	16	(216,486)	95,836
Foreign exchange differences		(6)	844
Other comprehensive income, that might not be subsequrently reclassified to profit or loss:			
Net actuarial profits (losses) on specific services program valuation	16	886	(5,898)
Other comprehensive income after tax		**(215,606)**	**90,782**
Total comprehensive income for the period		**410,813**	**1,038,094**
Including:			
Comprehensive income attributable to the Bank's shareholders		**410,813**	**1,038,094**

Explanatory notes on pages 11-88 are an integral part of the annual consolidated financial statements.

Consolidated statement of financial position

PLN'000	As at Note	31.12.2015	31.12.2014
ASSETS			
Cash and balances with Central Bank	17	2,170,237	1,522,949
Amounts due from banks	18	757,103	2,065,685
Financial assets held-for-trading	19	6,987,284	12,721,573
Debt securities available-for-sale	20	1,795	-
Hedging derivatives	21	18,351,259	14,435,099
Equity investments valued at equity method	22	7,768	7,765
Equity investments available-for-sale	23	67,744	8,211
Amounts due from customers	24	18,975,471	16,770,482
Tangible fixed assets	25	354,080	366,857
Intangible assets	26	1,371,879	1,387,745
Current income tax receivables		20,673	13,255
Deferred income tax asset	28	161,586	157,319
Other assets	29	277,985	384,612
Non-current assets held-for-sale		1,928	2,113
Total assets		**49,506,792**	**49,843,665**
LIABILITIES			
Amounts due to banks	30	6,963,561	5,122,576
Financial liabilities held-for-trading	19	3,247,523	6,770,922
Hedging derivatives	20	112,383	-
Amounts due to customers	31	31,586,303	29,632,598
Provisions	32	23,494	26,409
Current income tax liabilities		-	186
Other liabilities	33	722,872	880,214
Total liabilities		**42,656,136**	**42,432,905**
EQUITY			
Share capital	35	522,638	522,638
Supplementary capital	35	3,001,525	3,000,298
Revaluation reserve	35	(163,613)	52,873
Other reserves	35	2,869,509	2,893,523
Retained earnings		620,597	941,428
Total equity		**6,850,656**	**7,410,760**
Total liabilities and equity		**49,506,792**	**49,843,665**

Explanatory notes on pages 11-88 are an integral part of the annual consolidated financial statements.

Consolidated statement of changes in equity

PLN'000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
As at 1 January 2015	**522,638**	**3,000,298**	**52,873**	**2,893,523**	**941,428**	**-**	**7,410,760**
Total comprehensive income including:	-	-	(216,486)	880	626,419	-	410,813
net profit	-	-	-	-	626,419	-	626,419
exchange rate differences from foreign units' conversion	-	-	-	(6)	-	-	(6)
valuation of financial assets available-for-sale (net)	-	-	(216,486)	-	-	-	(216,486)
net actuarial profits on specific services program valuation	-	-	-	886	-	-	886
Dividends paid	-	-	-		(970,917)	-	(970,917)
Transfer to capital	-	1,227	-	(24,894)	23,667	-	-
As at 31 December 2015	**522,638**	**3,001,525**	**(163,613)**	**2,869,509**	**620,597**	**-**	**6,850,656**

Note: 16, 35

PLN'000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
As at 1 January 2014	**522,638**	**2,997,759**	**(42,963)**	**2,859,388**	**970,442**	**-**	**7,307,264**
Total comprehensive income, including:	-	-	95,836	(5,054)	947,312	-	1,038,094
net profit	-	-	-	-	947,312	-	947,312
exchange rate differences from foreign units' conversion	-	-	-	844	-	-	844
valuation of financial assets available-for-sale (net)	-	-	95,836	-	-	-	95,836
net actuarial losses on specific services program valuation	-	-	-	(5,898)	-	-	(5,898)
Dividends paid	-	-	-	-	(934,598)	-	(934,598)
Transfer to capital	-	2,539	-	39,189	(41,728)	-	-
As at 31 December 2014	**522,638**	**3,000,298**	**52,873**	**2,893,523**	**941,428**	**-**	**7,410,760**

Note: 16, 35

Explanatory notes on pages 11-88 are an integral part of the annual consolidated financial statements.

Consolidated cash flow statement

PLN'000 For the period	2015	2014
A. Cash flows from operating activities		
I. Net profit	**626,419**	**947,312**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**228,647**	**(342,970)**
Current and deferred income tax recognized in income statement	164,356	220,398
Share in net profits/losses of entities valued at equity method	(61)	(28)
Depreciation expense	70,422	71,364
Net impairment due to financial assets value loss	(14,416)	(17,893)
Net provisions (recoveries)	13,911	(3,792)
Net interest income	(976,600)	(1,163,943)
Profit/loss on sale of investments	(77)	(6,497)
Net unrealized exchange differences	(14,533)	(18,657)
Other adjustments	7,110	4,975
Cash flows from operating income before changes in operating assets and liabilities	**(749,888)**	**(914,073)**
Change in operating assets (excl. cash and cash equivalents)	**614,873**	**(3,796,967)**
Change in amounts due from banks	1,279,141	1,342,186
Change in amounts due from customers	(2,187,882)	(1,526,081)
Change in debt securities available-for-sale	(4,285,478)	3,346,747
Change in equity investments available-for-sale	3,502	7,264
Change in financial assets held-for-trading	5,696,941	(6,950,635)
Change in assets available-for-sale	(1,795)	(1,174)
Change in other assets	110,444	(15,274)
Change in operating liabilities (excl. cash and cash equivalents)	**363,662**	**4,368,070**
Change in amounts due to banks	1,992,079	(1,235,446)
Change in amounts due to customers	1,956,310	3,073,878
Change in liabilities held-for-trading	(3,523,399)	2,574,026
Change in amounts due to hedging derivatives	112,383	(24,710)
Change in other liabilities	(173,711)	(19,678)
Interest received	**1,308,427**	**1,433,535**
Interest paid	**(255,530)**	**(328,650)**
Income tax paid	**(128,577)**	**(136,088)**
III. Net cash flows from operating activities	**1,779,386**	**1,573,139**
B. Cash flows from investing activities		
Purchase of tangible fixed assets	(34,502)	(47,144)
Disposal of tangible fixed assets	6,259	22,632
Purchase of intangible assets	(20,873)	(6,995)
Disposal of fixed assets available-for-sale	250	16,452
Other investing inflows	58	-
Net cash flows from investing activities	**(48,808)**	**(15,055)**
C. Cash flows from financing activities		
Dividends paid	(970,917)	(934,598)
Inflows due to long-term loans from financial sector entities	56,461	197,577
Repayment of long-term loans from financial sector entities	(202,379)	(221,230)
Net cash flows from financing activities	**(1,116,835)**	**(958,251)**
D. Exchange rates differences resulting from cash and cash equivalents conversion	**7,694**	**12,920**
E. Net increase in cash and cash equivalents	**621,437**	**612,753**
F. Cash at the beginning of the period	**1,732,915**	**1,120,162**
G. Cash at the end of the period (see Note 44)	**2,354,352**	**1,732,915**

Explanatory notes on pages 11-88 are an integral part of the annual consolidated financial statements.

Explanatory notes to the consolidated financial statements

1. General information about the Bank and the Capital Group ("the Group")

Bank Handlowy w Warszawie S.A. ("Bank" or "parent entity") has its registered office in Warsaw at Senatorska 16, 00-923 Warszawa. The Bank was founded on the basis of 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 parent entity was given REGON number: 000013037 and tax identification number NIP: 526-030-02-91.

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

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. Additionally, the Group operates in the following segments of business through its subsidiaries:

- brokerage operations;
- leasing services;
- investment operations.

These annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. show the data for the Bank as the parent and its subsidiaries (jointly "Group").

The Group consists of the Bank and the following subsidiaries:

Subsidiaries	Registered office	% of share capital/votes at the General Meeting	
		31.12.2015	31.12.2014
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Entities accounted for under the equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

Financial information on subsidiaries, 31.12.2015

Subsidiaries fully consolidated

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	97.47	184,631	45,504	139,127	14,528	3,928
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100.00	44,397	25,764	18,633	1,792	(1,578)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100.00	348,412	234,009	114,403	75,938	19,453
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100.00	Entity under liquidation				

** direct share*

Other entities

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100.00	7,768	10,930	37	10,893	221	57

** direct share*

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o. PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	3,125	184,631	45,504	139,127	14,528	3,928

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 29 February 2016, which is the entity's balance sheet date.

Financial information on subsidiaries 31.12.2014

Subsidiaries fully consolidated

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	97.47	264,580	124,815	139,765	23,662	4,566
HANDLOWY INVESTMENTS S.A. 1/	Luxembourg	Investment activity	Subsidiary	100.00	43,644	238	43,406	640	271
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100.00	424,698	318,187	106,511	76,093	15,340
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100.00	Entity under liquidation				

** direct share*

Other entities

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100.00	7,765	10,930	37	10,893	537	57

** direct share*

The explanation of indirect relationships:

1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o. PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	3,125	264,580	124,815	139,765	23,662	4,566

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the audited financial statements of the entities except for, PPH Spomasz Sp. z o.o. in liquadation. Financial data of Handlowy Investments S.A. originate from the audited financial statements prepared as at 28 February 2015, which was the entity's balance sheet date.

Financial data of subsidiary that is not fully consolidated are immaterial to the consolidated financial statements. As at 31 December 2015, the financial data amounted to 0.02% of the Group's assets (as at 31 December 2014: 0.02%) and 0.01% of the Group's net profit (as at 31 December 2014: 0.01%), excluding elimination of transactions within the Group.

2. Significant accounting policies

Declaration of conformity

The annual consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with further amendments) and respective operating regulations.

The annual consolidated financial statements have been approved by the Management Board of the Bank for publication on 7 March 2016. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

The annual standalone financial statements were approved by the Management Board of the Bank for publication on 7 March 2016. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

Basis of preparation

These annual consolidated financial statements of the Group have been prepared for the period from 1 January 2015 to 31 December 2015 and for the consolidated statements of financial situation as at 31 December 2015. The comparable financial data are presented for the period from 1 January 2014 to 31 December 2014 and for the consolidated statements of financial situation as at 31 December 2014.

The consolidated 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 in the income statement, 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 depreciation/ amortization and 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 European Union's approval that can have influence on financial statements of the Group:

- 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 Group is in the process of work related to the analysis of the requirements of the new standard, estimation of the potential impact on its financial statement and implementation of IFRS 9 into accounting and operational processes in the Group. At present the Group claims that the new standard will have an impact on the presentation and measurment of certain financial instruments in the financial statements as well as the calculation of impairment of financial assets.

- IFRS 15 “Revenue from Contracts with Customers” awaiting EU’s endorsement, was published by IASB on 28th May 2014.The core principle of the new Standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The revenue is recognized when the control over the goods or services is transferred to the customer. The Group is in the process of estimation of the potential impact of the standard on its financial statement.
- IFRS 16 ”Leases” awaiting EU’s endorsement, was published by IASB on 13th January 2014. This standard replaces requirements introduced by IAS 17 “Leases”. Under the new standard, Bank will recognize lease contracts in the balance sheet. It will be necessary to recognize a right-of-use asset and a lease liability. The Group is in the process of estimation of the potential impact of the standard on its financial statement.
- Amendments to IAS 1 ”Presentation of Financial Statements” came into force on 1 January 2016, was published by IASB on 18th December 2014. The amendments clarify that information should not be obscured by aggregating or by providing immaterial information. The Group claims that the standard’s amendment will not have a material impact on its financial statements in the period of its first application.

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

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 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.

Basis of consolidation

Subsidiaries – definition

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

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

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

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

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

Foreign currency

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

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

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

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

PLN		31 December 2015	31 December 2014
1	USD	3.9011	3.5072
1	CHF	3.9394	3.5447
1	EUR	4.2615	4.2623

Financial assets and liabilities

Classification

The Group 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 Group did not classify assets to investments held-to-maturity.

The Group 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. 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 Group 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 and internal deposits. The purchased receivables contain short-term receivables from domestic and foreign turnover documented by invoices and bills of exchange.

(c) Financial assets available-for-sale

Financial assets available-for-sale are those non-derivative financial assets that (i) are classified by the Group 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 and commercial commitments.

Cash

Cash is cash in hand and receivables on current balances in banks, described in detail in note 44 "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 Group's statement of financial position and derecognized at transaction settlement date, i.e., the date on which the Group will receive or transfer the ownership right to assets. The rights and liabilities from a concluded transaction are measured at fair value from the transaction conclusion day to the transaction settlement day.

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

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

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

Derivative financial instruments are recognized at fair value from the trade date and are derecognized from the balance on the settlement date.

Valuation

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

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

Finance lease receivables

The Group enters into lease agreements under which the Group transfers to the lessee, in return for a fee or benefits, the right to use an asset for an agreed period.

Assets under leases where the Group transfers substantially all the risk and rewards incidental to ownership of the leased assets are not included in the consolidated statement of financial position. A receivable representing an amount equal to the net investment in the finance lease is recognized.

The recognition of interest income under finance lease is based on an effective interest rate method reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Equity investments – shares in other entities

Shares in entities other than subordinated entities are classified as financial assets available-for-sale or financial assets held-for-trading.

Derivatives

Fair value of derivatives financial instruments 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 Group designates certain derivatives for hedging positions in hedge accounting. The Group 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 Group does not offset and present its financial assets and liabilities on a net basis.

Cash pooling

The Group 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 Group 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 Group's assets and the Group 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 Group 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 Group classifies assets measured at amortized cost into the portfolio of assets that are individually significant and the portfolio of assets that are not individually significant (portfolio basis). On the balance sheet date, the Group 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 Group:

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

Forbearance

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 Group 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 Group. The IBNR impairment allowances are calculated using statistical parameters for the groups of assets combined in portfolios having similar credit risk characteristics. In the financial statements, the Group corrects credit exposure with the value of the IBNR impairment allowances.

Impairment allowances for individually significant assets

The level of impairment allowances for receivables that are deemed as individually significant and for which evidence of impairment was detected is calculated as the difference between the carrying value of an asset and the present value of the future cash flows from expected repayments by the borrower, from cash settlement of collateral or 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 impairment allowances for receivables that are deemed as individually not significant, for which evidence of impairment was detected, is calculated on the basis of a portfolio assessment which is based on the history of losses incurred on assets with similar risk characteristics.

Impairment allowances for amounts due from banks and customers, allowances for impairment of securities and other assets adjust the value of particular asset categories. Provisions for contingent liabialities 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 Group 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). 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 subordinated entities classified as available-for-sale where the fair value cannot be reliably measured are not reversed through profit or loss.

Impairment of assets other than financial assets

The carrying amounts of the Group'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.

Goodwill

In the consolidated financial statements of the Group, goodwill represents the difference between the cost of the acquisition and the fair value of the Group'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 independently of objective evidence of impairment. The revaluation write-off for impairment for goodwill can't be reversed.

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 Group 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 2015.

Illustrative annual depreciation and amortization rates applied by the Group 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 less costs of sale and value in use.

Employee benefits

Short-term employee benefits

The Group'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 the year 2015 the SOP programme was completed. All the options which had not been completed until the 29th of October, 2015 expired.

In accordance with IFRS 2 "Share-based payment", all the programs functioning in the Group are deemed to be cash-settled programs. A provision is created for future payments and is shown in "consolidated statement on 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 47 “Employee benefits”.

Defined contribution plans

The Group enables its employees to join a pension plan, which is described in detail in Note 47. The Group 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 Group 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 Group 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 Group records accruals and prepayments of expenses primarily in relation to the Group’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 Group takes into account all the terms and conditions of a financial instrument agreement (e.g., prepayments, call options, etc.), but excludes potential future losses in connection with non-recoverable loans. The calculation covers all the commissions payable to and receivable from the parties to the agreement, integral components of the effective interest rate, transactional costs and any other premiums and discounts. As a result, commissions that are an integral part of the effective interest rate less direct costs of obtaining the financial instrument are recognized as components of interest income.

In the case of financial assets 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 Group renders financial services to its customers. The Group classifies its commission into the following categories:

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

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

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 Group 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 Group 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 Group 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 in 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 Group 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.

Segment reporting

A segment is a separate part of the Group's operations, generating income and expenses (including from transactions within the Group), whose operating results are regularly analyzed by the Management Board as the main decision-making body, in order to allocate resources and assess its performance.

The Group is managed at the level of two main business segments - Corporate Bank and Consumer Bank. Detailed information about the segments of the Group is presented in Note 3.

Assets and liabilities, revenues and financial results of particular segments are measured in accordance with the accounting policies and standards adopted by the Group.

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

- FX forwards – discounted cash flows model;
- options – option market-based valuation model;

- interest rate transactions – discounted cash flows model;
- futures – current quotations.

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

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

- Counterparty Credit Risk of companies for which there is 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 Group is using a method defined for clients for which there is no active CDS market.

Main factors determining the change of counterparty credit risk estimations are: (i) change of fair value of derivative instruments correlated with 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 Group assesses whether there is an objective evidence of impairment of loan exposures. If so, the Group records a impairmaint loss equal to the difference between the carrying value and the estimated present value of the future cash flows from a given loan exposure. The Group 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 loss. 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 Group has applied, among others, the probability of default (PD) and loss resulting from default (LGD).

The Group uses estimates to determine whether there is objective evidence of impairment, calculate the present value of future cash flows and estimate impairment loss 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 Group.

Impairment of goodwill

The Group carries out obligatory annual impairment tests of goodwill in accordance with the model based on guidance from IAS 36. The basis of valuation of the recoverable amount of cash-generating units, to which the goodwill is assigned, is their value in use which is estimated by the Bank's management 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 amount 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

A segment is a separable component of the Group engaged in business activities, generating income and expenses (including intergroup transactions), whose operating results are regularly reviewed by the Management Board of parent entity as the chief operating decision-maker of the Group in order to allocate resources and assess its performance.

The Group is managed at the level of two main business segments – Institutional Bank and Consumer Bank. The valuation of a segment's assets and liabilities as well as calculation of financial results comply with the Group's accounting policies applied in the preparation of the financial statements, including intergroup transactions between segments.

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

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

Institutional Bank

Within the Institutional Bank segment, the Group offers products and renders services to business entities, local government units and the public sector. Apart from traditional banking services including credit and deposit activities, the segment provides services in the area of cash management, trade financing, leases, brokerage, custody services in respect of securities and offers treasury products on financial and commodity markets. In addition, the segment offers investment banking services on the local and international capital markets, including advisory services, obtaining and underwriting financing via public and non-public issues of financial instruments. The activities of the segment also include proprietary transactions in the equity, debt and derivative instruments markets.

Consumer Bank

Within the Consumer Bank segment, the Group provides products and financial services to individuals as well as to micro-enterprises and individual entrepreneurs within the framework of CitiBusiness offer. Apart from keeping bank accounts and providing credit and deposit offer, the Group offers cash loans, mortgage loans, credit cards, provides asset management services, and acts as agent in the sale of investment and insurance products.

Income statement of the Group by business segment

For the period	2015			2014		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Net interest income	420,852	555,748	976,600	516,149	647,794	1,163,943
Internal net interest income, including:	(53,265)	53,265	-	(53,302)	53,302	-
internal income	-	53,265	53,265	-	53,302	53,302
internal costs	(53,265)	-	(53,265)	(53,302)	-	(53,302)
Net fee and commission income	279,948	351,402	631,350	279,785	339,146	618,931
Dividend income	1,667	5,715	7,382	2,215	3,568	5,783
Net income on trading financial instruments and revaluation	265,928	27,190	293,118	350,697	31,463	382,160
Net gain on debt investment securities	145,246	-	145,246	229,922	-	229,922
Net gain on capital investment instruments	2,232	-	2,232	6,429	-	6,429
Net gain on hedge accounting	7,949	-	7,949	(379)	-	(379)
Net other operating income	17,570	(29,740)	(12,170)	31,646	(21,061)	10,585
General administrative expenses	(544,279)	(663,596)	(1,207,875)	(515,892)	(686,624)	(1,202,516)
Depreciation expense	(23,298)	(47,124)	(70,422)	(23,937)	(47,427)	(71,364)
Profit/loss on sale of other assets	47	55	102	892	5,492	6,384
Net impairment allowances for	3,489	13,713	17,202	(1,621)	19,425	17,804

For the period	2015			2014		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
financial assets and net provisions for financial liabilities and guarantees granted						
Operating profit	**577,351**	**213,363**	**790,714**	**875,906**	**291,776**	**1,167,682**
Share in net profits of entities valued at equity method	61	-	61	28	-	28
Profit before tax	**577,412**	**213,363**	**790,775**	**875,934**	**291,776**	**1,167,710**
Income tax expenses			(164,356)			(220,398)
Net profit			**626,419**			**947,312**

As at	31.12.2015			31.12.2014		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Total assets, including:	**43,034,095**	**6,472,697**	**49,506,792**	**43,663,564**	**6,180,101**	**49,843,665**
Assets valued at equity method	7,768	-	7,768	7,765	-	7,765
Non-current assets held-for-sale	-	1,928	1,928	-	2,113	2,113
Total liabilities and equity, including:	**38,188,084**	**11,318,708**	**49,506,792**	**40,417,857**	**9,425,808**	**49,843,665**
Liabilities	32,930,579	9,725,557	42,656,136	34,672,382	7,760,523	42,432,905

4. Net interest income

PLN'000	2015	2014
Interest and similar income due to:		
Balances with Central Bank	16,726	25,017
Amounts due from banks	38,185	60,334
Amounts from customers, including:	778,316	946,928
financial sector entities	21,362	20,333
non-financial sector entities	756,954	926,595
Debt securities available-for-sale	297,497	363,255
Debt securities held-for-trading	73,416	93,537
Hedging derivates	28,273	-
	1,232,413	**1,489,071**
Interest expense and similar charges due to:		
Amounts due to banks	(40,967)	(39,223)
Amounts due to financial sector entities	(48,985)	(84,999)
Amounts due to non-financial sector entities	(115,952)	(194,997)
Loans and advances received	(1,648)	(3,267)
Derivatives in hedge accounting	(48,261)	(2,642)
	(255,813)	**(325,128)**
Net interest income	**976,600**	**1,163,943**

Net interest income for 2015 includes interest accrued on impaired loans of PLN 16,921 thousand (for 2014: PLN 27,633 thousand).

5. Net fee and commission income

PLN'000	**2015**	**2014**
Fee and commission income		
Insurance and investment products (agency)	119,656	145,495
Payment and credit cards	188,001	205,391
Payment services	110,993	114,167
Custody services	123,637	111,433
Charges from cash loans	2,606	3,228
Brokerage operations	53,999	64,038
Cash management services on customers' accounts	26,454	27,617
Guarantees granted	16,343	14,991
Financial liabilities granted	5,420	6,226
Other	62,326	33,610
	709,435	**726,196**
Fee and commission expense		
Payment and credit cards	(24,977)	(50,248)
Brokerage operations	(16,679)	(21,680)
Fees paid to the National Depository for Securities (KDPW)	(19,367)	(20,473)
Broker's fees	(4,512)	(4,073)
Other	(12,550)	(10,791)
	(78,085)	**(107,265)**
Fee and commission income	**631,350**	**618,931**

The net fee and commission income for 2015 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 194,649 thousand (for 2014: PLN 211,693 thousand) and commission expenses in the amount of PLN 24,977 thousand (for 2014: PLN 50,248 thousand).

6. Dividend income

PLN'000	**2015**	**2014**
Securities available-for-sale	7,018	4,966
Securities held-for-trading	364	817
Total dividend income	**7,382**	**5,783**

7. Net income on trading financial instruments and revaluation

PLN'000	**2015**	**2014**
Net income on financial instruments measured at fair value through profit of loss from:		
Debt instruments	(29,914)	112,538
Equity instruments	(8,035)	(1,429)
Derivative instruments, including:	64,559	(20,258)
Interest rate derivatives	53,614	(22,964)
	26,610	**90,851**
Net profit on foreign exchange		
Net profit on foreign currency derivatives	361,841	292,999
Revaluation	(95,333)	(1,690)
	266,508	**291,309**
Net income on trading financial instruments and revaluation	**293,118**	**382,160**

The net income on trading financial instruments and revaluation for 2015 contains movement in (net) adjustment of the valuation of derivatives from adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN (11,170) thousand (in 2014: PLN 10,935 thousand).

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. Hedge accounting income

PLN'000	**2015**	**2014**
Fair value hedge accounting		
Net gain on hedged transaction valuation	94,294	25,987
Net gain on hedging transaction valuation	(86,345)	(26,366)
Hedge accounting income	**7,949**	**(379)**

Detailed information on hedge accounting applied in the Group is presented in the further part of these Financial Statements in note 38.

9. Net other operating income

PLN'000	**2015**	**2014**
Other operating income		
Services for related parties	8,968	8,894
Rental of office space	9,539	9,362
Reversal of provision on litigation	-	5,679
Other	21,632	28,331
	40,139	**52,266**
Other operating expenses		
Amicable procedure and debt collection expenses	(19,509)	(20,480)
Fixed assets held-for-sale valuation	-	(1,152)
Fixed assets held-for-sale maintenance cost	(173)	(592)
Creation of provisions for litigations (net)	(15,568)	-
Other	(17,059)	(19,457)
	(52,309)	**(41,681)**
Net other operating income	**(12,170)**	**10,585**

10. General administrative expenses

PLN'000	**2015**	**2014**
Staff expenses		
Remuneration costs, including:	(404,501)	(403,994)
Provisions for retirement allowances	(25,130)	(23,842)
Bonuses and rewards, including:	(94,351)	(109,084)
Payments related to own equity instruments	(10,254)	(17,124)
Rewards for long time employment	(45)	(847)
Social insurance costs	(66,911)	(66,916)
	(565,763)	**(579,994)**

PLN'000	2015	2014
Administrative expenses		
Telecommunication fees and hardware purchases	(200,464)	(174,244)
Costs of external services, including advisory, audit, consulting services	(66,253)	(71,405)
Building maintenance and rent costs	(82,157)	(100,037)
Advertising and marketing costs	(10,666)	(25,163)
Cash management service, KIR service and other transactional costs	(42,580)	(50,831)
Costs of external services related to the distribution of banking products	(15,717)	(63,933)
Postal services, office supplies and printmaking costs	(10,262)	(13,991)
Training and education costs	(2,742)	(4,003)
Banking supervisory expenses	(3,744)	(3,201)
Bank Guarantee Funds costs	(130,934)	(37,482)
Other expenses	(76,593)	(78,232)
	(642,112)	**(622,522)**
Total general administrative expenses	**(1,207,875)**	**(1,202,516)**

Staff expenses include following employee benefits for current and former members of the Management Board.

PLN'000	2015	2014
Short-term employee benefits	12,536	13,156
Long-term employee benefits	4,397	2,965
Capital assets	3,705	7,512
	20,638	**23,633**

11. Depreciation expense

PLN'000	2015	2014
Depreciation of property and equipment	(35,853)	(35,837)
Amortization of intangible assets	(34,569)	(35,527)
Depreciation expense, total	**(70,422)**	**(71,364)**

12. Sale of other assets

PLN'000	2015	2014
Profits on:		
Sale of tangible fixed assets	60	745
Sale of fixed assets held-for-sale	43	5,803
	103	**6,548**
Losses on:		
Sale of assets available for sale	-	(164)
Sale of tangible fixed assets	(1)	-
	(1)	**(164)**
Sale of other assets	**102**	**6,384**

13. Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted

PLN'000	2015			
	Institutional customers	**Retail customers**	**Banks**	**Total**
Impairment allowances for financial assets:				
Amounts due from banks and customers	(63,544)	(110,977)	(3,900)	(178,421)
Amounts due from matured transactions in derivative instruments	(766)	-	-	(766)
	(64,310)	**(110,977)**	**(3,900)**	**(179,187)**
Reversals of impairment allowances for financial assets:				
Amounts due from banks and customers	63,486	91,436	4,972	159,894
Amounts due from matured transactions in derivative instruments	1,871	-	-	1,871
Recovery on sale of debt	(224)	27,929	-	27,705
Other	(2,745)	6,877	-	4,132
	62,388	**126,242**	**4,972**	**193,602**
Net impairment due to financial assets value losses	**(1,922)**	**15,265**	**1,072**	**14,415**
Establish of provisions for granted financial and guarantee commitments	(25,950)	(6)	-	(25,956)
Release of provisions for granted financial and guarantee commitments	28,062	681	-	28,743
Net impairment due to provisions for granted financial and guarantee commitments	**2,112**	**675**	**-**	**2,787**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	**190**	**15,940**	**1,072**	**17,202**

PLN'000	2014			
	Institutional customers	**Retail customers**	**Banks**	**Total**
Impairment write-offs of financial assets:				
Amounts due from banks and customers	(98,339)	(115,753)	(4,503)	(218,595)
Amounts due from matured transactions in derivative instruments	(302)	-	-	(302)
Other	(5,663)	1,537	-	(4,126)
	(104,304)	**(114,216)**	**(4,503)**	**(223,023)**
Reversals of impairment write-offs of financial assets:				
Amounts due from banks and customers	98,201	118,613	2,803	219,617
Amounts due from matured transactions in derivative instruments	690	-	-	690
Recovery on sale of debt	792	19,816	-	20,608
	99,683	**138,429**	**2,803**	**240,915**
Net impairment due to financial assets value losses	**(4,621)**	**24,213**	**(1,700)**	**17,892**
Establishment 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	**(4,310)**	**23,814**	**(1,700)**	**17,804**

14. Income tax expense

Recognized in the income statement

PLN'000	2015	2014
Current tax		
Current year	(117,857)	(204,581)
Adjustments for prior years	(194)	8,922
	(118,051)	**(195,659)**
Deferred tax		
Origination and reversal of temporary differences	(46,305)	(24,716)
Written-off assets due to deferred tax	-	(23)
	(46,305)	**(24,739)**
Total income tax expense in income statement	**(164,356)**	**(220,398)**

Reconciliation of effective tax rate

PLN'000	2015	2014
Profit before tax	790,775	1,167,710
Income tax at the domestic corporate tax rate of 19%	(150,247)	(221,865)
Impairment write-offs not constituting deductible expenses	(11,592)	(10,227)
Deductible income not recognized in the income statement	(642)	(397)
Deductible expenses not recognized in the income statement	(3,083)	(337)
Non taxable income	5,414	2,306
Technological relief	-	9,637
Other permanent differences, incluiding other non-deductible expenses	(4,206)	485
Total tax expenses	**(164,356)**	**(220,398)**
Effective tax rate	**20.78%**	**18.87%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2015 is related to debt and equity instruments available-for-sale and valuation of defined benefit plan and amounted to PLN 39,554 thousand (31 December 2014: PLN (11,019) thousand).

15. Earnings per share

As at 31 December 2015, earnings per share amounted to PLN 4.79 (31 December 2014: PLN 7.25).

The calculation of earnings per share as at 31 December 2015 was based on profit attributable to shareholders of PLN 626,419 thousand (31 December 2014: PLN 947,312 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2015 of 130,659,600 (31 December 2014: 130,659,600).

The Bank does not have any ordinary shares that may have a dilution impact or any other dilutive instruments.

16. 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 and valuation of specific services program recognized in the other reserves.

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2015	**57,994**	**(11,019)**	**46,975**
AFS valuation change	(122,019)	23,182	(98,837)
Valuation of sold AFS moved to income statement	(145,246)	27,597	(117,649)
Net actuarial profits on defined benefit plan	1,093	(207)	886
As at 31 December 2015	**(208,178)**	**39,553**	**(168,625)**

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2014	**(53,041)**	**10,078**	**(42,963)**
AFS valuation change	348,238	(66,165)	282,073
Valuation of sold AFS moved to income statement	(229,922)	43,685	(186,237)
Net actuarial losses on defined benefit plan	(7,281)	1,383	(5,898)
As at 31 December 2014	**57,994**	**(11,019)**	**46,975**

17. Cash and balances with the Central Bank

PLN'000	31.12.2015	31.12.2014
Cash in hand	477,105	495,408
Current balances with Central Bank	1,693,132	1,027,541
Cash and balances with the Central Bank, total	**2,170,237**	**1,522,949**

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 2015 to PLN 1,277,754 thousand (31 December 2014: PLN 1,105,461 thousand).

18. Amounts due from banks

PLN'000	31.12.2015	31.12.2014
Current accounts	184,445	210,424
Deposits	28,111	406,948
Loans and advances	4,461	359,072
Unlisted debt securities	28,455	28,456
Receivables due to purchased securities with repurchase agreement	215,166	681,694
Deposits pledged as collateral of derivative instruments and stock market transactions	286,641	381,971
Other receivables	11,574	-
Total gross amount	**758,853**	**2,068,565**
Impairment write-offs	(1,750)	(2,880)
Total net amount due from banks	**757,103**	**2,065,685**

The movement in amounts due from banks is as follows:

PLN'000	31.12.2015	31.12.2014
As at 1 January	**(2,880)**	**(1,173)**
Increases (due to):		
Write-offs creation	(3,900)	(4,503)
Other	-	(7)
Decreases (due to):		
Write-offs release	4,972	2,803
Other	58	-
As at 31 December	**(1,750)**	**(2,880)**

As at 31 December 2015 and 31 December 2014, recognized impairment on amounts due from banks concerned incurred but not reported (IBNR) write-offs.

19. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN'000	31.12.2015	31.12.2014
Debt securities held-for-trading		
Bonds and notes issued by:		
Banks*	379,866	137,770
Other financial entities	33,054	-
Non financial entities	-	14,799
Central governments	4,279,640	6,944,306
	4,692,560	**7,096,875**
Including:		
Listed on active market	4,297,762	6,284,719
Unlisted on active market	394,798	812,156
Equity instruments held-for-trading	**27,592**	**238**
Including:		
Listed on active market	27,592	238
Derivative financial instruments	**2,267,132**	**5,624,460**
Financial assets held-for-trading, total	**6,987,284**	**12,721,573**

*As at 31 December 2015, some of the securities (bonds) issued by banks in the amount of PLN 406 thousand are covered by Government guarantees (31 December 2014: PLN 2 thousand).

Financial liabilities held-for-trading

PLN'000	31.12.2015	31.12.2014
Short positions in financial assets	988,102	1,005,545
Derivative financial instruments	2,259,421	5,765,377
Financial liabilities held-for-trading	**3,247,523**	**6,770,922**

As at 31 December 2015 and 31 December 2014, the Group did not hold any financial assets and liabilities designated at fair value through profit or loss at initial recognition.

As at 31 December 2015, financial assets from derivatives transactions were not adjusted due to counterparty credit risk. As at 31 December 2014, impairment regarding the valuation adjustment of financial assets mentioned above amounted to PLN 4,526 thousand).

Derivative financial instruments as at 31 December 2015

PLN'000	Nominal amount with remaining life of					Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	Total	Assets	Liabilities
Interest rate instruments	**29,606,742**	**25,704,772**	**65,253,560**	**17,039,073**	**137,604,147**	**1,833,332**	**1,910,807**
FRA	14,448,907	5,482,363	2,360,000	-	22,291,270	8,191	6,617
Interest rate swaps (IRS)	11,139,647	15,847,092	52,692,575	12,731,037	92,410,351	1,533,367	1,636,670
Currency-interest rate swaps (CIRS)	3,103,899	4,375,317	9,855,708	4,308,036	21,642,960	289,872	265,389
Interest rate options	-	-	345,277	-	345,277	1,748	1,748
Futures*	914,289	-	-	-	914,289	154	383
Currency instruments	**22,998,714**	**7,398,703**	**2,842,795**	**49,994**	**33,290,206**	**337,491**	**249,663**
FX forward	1,798,010	1,300,349	923,125	49,994	4,071,478	53,699	34,668
FX swap	19,188,781	2,359,480	-	-	21,548,261	231,367	162,205
Foreign exchange options	2,011,923	3,738,874	1,919,670	-	7,670,467	52,425	52,790
Securities transactions	**1,807,542**	**11,051**	**-**	**-**	**1,818,593**	**1,575**	**4,252**
Futures*	17,262	11,051	-	-	28,313	-	-
Securities purchased / sold pending delivery	1,790,280	-	-	-	1,790,280	1,575	4,252
Commodity transactions	**175,897**	**446,005**	**260,071**	**-**	**881,973**	**94,734**	**94,699**
Swaps	122,107	430,807	260,071	-	812,985	94,720	94,685
Options	53,790	15,198	-	-	68,988	14	14
Total derivative instruments	**54,588,895**	**33 560 531**	**68,356,426**	**17,089,067**	**173,594,919**	**2,267,132**	**2,259,421**

**Exchange-traded products*

Derivative financial instruments as at 31 December 2014

PLN'000	Nominal amount with remaining life of					Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	Total	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**
Swap	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*

20. Hedging derivates

Assets - Positive valuation

PLN'000	31.12.2015	31.12.2014
Balance sheet valuation of instruments hedging the fair value of securities		
IRS transactions	1,795	-

Liabilities – Negative valuation

PLN'000	31.12.2015	31.12.2014
Balance sheet valuation of instruments hedging the fair value of securities		
IRS transactions	112,383	-

Hedging derivates as at 31 December 2015

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)	-	-	3,058,015	1,373,000	4,431,015

21. Debt securities available-for-sale

PLN'000	31.12.2015	31.12.2014
Bonds and notes issued by:		
Central bank	-	4,499,750
Other banks*	1,509,007	1,182,039
Central governments, including:	16,842,252	8,753,310
bonds subject to fair value hedge accounting	4,657,996	-
Debt securities available-for-sale, total	**18,351,259**	**14,435,099**
Including:		
Listed on active market instruments	17,730,251	7,606,151
Unlisted on active market instruments	621,008	6,828,948

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

PLN'000	2015	2014
As at 1 January	**14,435,099**	**17,616,041**
Increases (due to):		
Purchases	172,338,701	319,403,242
Revaluation	-	102,367
Exchange differences	213,522	177,579
Depreciation of discount, premium and interest	241,808	58,522
Decreases (due to):		
Sale	(168,634,720)	(322,922,652)
Revaluation	(243,151)	-
As at 31 December	**18,351,259**	**14,435,099**

*As at 31 December 2015, some of the securities (bonds) issued by other banks in the amount of PLN 556,274 thousand are covered by Government guarantees (31 December 2014: PLN 266,542 thousand).

22. Equity investments valued using equity method

PLN'000	31.12.2015	31.12.2014
Shares in subsidiaries	**7,768**	**7,765**
Including:		
Unlisted instruments	7,768	7,765

The movement in equity investments valued at equity method is as follows:

PLN'000	2015	2014
As at 1 January	**7,765**	**7,814**
Increases (due to):		
Revaluation	3	-
Decreases (due to):		
Revaluation	-	(49)
As at 31 December	**7,768**	**7,765**

23. Equity investments available-for-sale

PLN'000	31.12.2015	31.12.2014
Stocks and shares in other entities	77,229	19,651
Impairment	(9,485)	(11,440)
Other equity investments available-for-sale, total	**67,744**	**8,211**
Including:		
Listed on active market instruments	1,006	1,280
Unlisted on active market instruments	66,738	6,931

The movement in equity investments available-for-sale is as follows:

PLN'000	2015	2014
As at 1 January	**8,211**	**15,280**
Increases (due to):		
Revaluation	63,050	116
Decreases (due to):		
Sale	(3,517)	(7,185)
As at 31 December	**67,744**	**8,211**

In the 2015 the following events took place:

- there was made a positive valuation up to the fair value of shares in the Visa Europe Ltd. company as on the amount of PLN 63,323 thousand as of the 31st December 2015. That was an outcome of the acquisition transaction of Visa Europe Ltd. shares by Visa Inc. and conditions of Visa Europe Ltd shares sale transaction received by the Bank. The difference between the previous value of the share of PLN 45 and determined fair value was recognised into the other comprehensive income, additional information is contained in Note 39;
- there was a sell of shares in Polski Koncern Mięsny DUDA S.A representing 2.81% of the share in the capital and 2.81% of votes at the General Meeting.The carrying/ book value of sold shares amounted to PLN 3,517 thousand.

In 2014 sold were:

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

24. Amounts due from customers

PLN'000	31.12.2015	31.12.2014
Amounts due from financial sector entities		
Loans and advances	307,402	340,841
Debt securities unlisted	199,724	-
Receivables subject to securities sale and repurchase agreements	1,356,247	599,899
Guarantee funds and deposits pledged as collateral	186,007	98,011
Other receivables	1,605	1,695
Total gross amount	**2,050,985**	**1,040,446**
Impairment write-offs	(17,270)	(19,082)
Total net amount	**2,033,715**	**1,021,364**
Amounts due from non-financial sector entities		
Loans and advances	15,254,953	14,142,915
Unlisted debt securities	1,075,891	1,118,225
Purchased receivables	1,102,720	1,006,797
Effected guarantees	1,577	1,824
Other receivables*	74,751	259,171
Total gross amount	**17,509,892**	**16,528,932**
Impairment write-offs	(568,136)	(779,814)
Total net amount	**16,941,756**	**15,749,118**
Total net amounts due from customers	**18,975,471**	**16,770,482**

*"Other receivables" includes leasing receivables in the amount of PLN 66,895 thousand (31 December 2014: PLN 231,591 thousand).

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

PLN'000	31.12.2015	31.12.2014
Portfolio impairment loss	(224,106)	(387,688)
Individual impairment loss	(296,332)	(339,901)
Incurred but not reported losses (IBNR)	(64,968)	(71,307)
Impairment loss, total	**(585,406)**	**(798,896)**

The movement in impairment loss on amounts due from customers is as follows:

	2015			2014		
PLN'000	Institutional customers	Retail customers	Total	Institutional customers	Retail customers	Total
As at 1 January	**(403,578)**	**(395,318)**	**(798,896)**	**(448,225)**	**(535,808)**	**(984,033)**
Increases (due to):						
Creation of write-offs	(63,544)	(110,977)	(174,521)	(98,339)	(115,753)	(214,092)
Other	(3,253)	433	(2,820)	(2,201)	-	(2,201)
Decreases (due to):						
Restating receivables	41,530	58,338	99,868	43,993	136,264	180,257
Net wirte-offs on receivables on taken instruments transactions	1,105	-	1,105	388	-	388
Write-offs release	63,486	91,436	154,922	98,201	118,613	216,814
Sale of receivables	42,764	92,172	134,936	-	-	-
Other	-	-	-	2,605	1,366	3,971
As at 31 December	**(321,490)**	**(263,916)**	**(585,406)**	**(403,578)**	**(395,318)**	**(798,896)**

Finance lease receivables

The Group operates on the leasing market through its subsidiary Handlowy-Leasing Sp. z o.o. The Group provides finance leases of vehicles, machines and equipment.

Included in “Amounts due from customers” are the following amounts relating to finance lease receivables from non-financial sector entities:

PLN'000	31.12.2015	31.12.2014
Gross finance lease receivables	68,127	238,625
Unrealized financial income	(1,232)	(7,034)
Net finance lease receivables	**66,895**	**231,591**

Gross finance lease receivables as follows (by time to maturity):

PLN'000	31.12.2015	31.12.2014
Less than 1 year	57,957	164,789
Between 1 and 5 years	10,170	73,836
	68,127	**238,625**

Net finance lease receivables as follows (by time to maturity):

PLN'000	31.12.2015	31.12.2014
Less than 1 year	56,933	159,888
Between 1 and 5 years	9,962	71,703
	66,895	**231,591**

As at 31 December 2015, impairment of finance lease receivables amounted to PLN 8,010 thousand (as at 31 December 2014: PLN 62,258 thousand).

Finance lease income is presented in interest income.

25. Tangible fixed assets

Movements of tangible fixed assets in 2015

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2015	**601,749**	**101**	**16,896**	**307,290**	**10,149**	**936,185**
Increases:						
Purchases	806	-	188	6,206	27,302	34,502
Other increases	-	-	-	854	-	854
Decreases:						
Disposals	-	(5)	(14,093)	(194)	-	(14,292)
Liquidation	(1,381)	-	-	(32,702)	-	(34,083)
Other decreases	-	-	(9)	(73)	-	(82)
Transfers	12,497	-	-	10,653	(27,994)	(4,844)
As at 31 December 2015	**613,671**	**96**	**2,982**	**292,034**	**9,457**	**918,240**
Depreciation						
As at 1 January 2015	**289,412**	**99**	**7,393**	**272,424**	**-**	**569,328**
Increases:						
Amortization change for the period	17,452	2	1,750	16,649	-	35,853
Other increases	-	-	40	827	-	867

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Decreases:						
Disposals	-	(5)	(7,706)	(326)	(7)	(8,044)
Liquidation	(1,381)	-	-	(32,390)	-	(33,771)
Other decreases	-	-	(10)	(63)	-	(73)
As at 31 December 2015	**305,483**	**96**	**1,467**	**257,121**	**(7)**	**564,160**
Carrying amount						
As at 1 January 2015	312,337	2	9,503	34,866	10,149	366,857
As at 31 December 2015	**308,188**	**-**	**1,515**	**34,913**	**9,464**	**354,080**

Movements of tangible fixed assets in 2014

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2014	**645,773**	**169**	**48,517**	**320,440**	**4,327**	**1,019,226**
Increases:						
Purchases	617	-	-	8,315	38,212	47,144
Other increases	-	-	-	1,642	-	1,642
Decreases:						
Disposals	(27,255)	(68)	(31,621)	(1,207)	-	(60,151)
Liquidation	(33,117)	-	-	(31,817)	-	(64,934)
Classified to 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	**601,749**	**101**	**16,896**	**307,290**	**10,149**	**936,185**
Depreciation						
As at 1 January 2014	**316,128**	**156**	**29,139**	**289,222**	**-**	**634,645**
Increases:						
Amortization charge for the period	16,560	11	4,208	15,058	-	35,837
Other increases	-	-	-	683	-	683
Decreases:						
Disposals	(11,097)	(68)	(25,954)	(1,093)	-	(38,212)
Classified to fixed assets available for sale	(31,286)	-	-	(31,164)	-	(62,450)
Liquidation	(893)	-	-	(271)	-	(1,164)
Other decreases	-	-	-	(11)	-	(11)
As at 31 December 2014	**289,412**	**99**	**7,393**	**272,424**	**-**	**569,328**
Carrying amount						
As at 1 January 2014	329,645	13	19,378	31,218	4,327	384,581
As at 31 December 2014	**312,337**	**2**	**9,503**	**34,866**	**10,149**	**366,857**

26. Intangible assets

Movements of intangible assets in 2015

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2015	**1,245,976**	**2,444**	**401,614**	**18,519**	**5,789**	**1,674,342**
Increases:						
Purchases	-	116	865	-	19,892	20,873

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Decreases:						
Liquidation	-	-	(10,251)	-	-	(10,251)
Transfers	-	-	13,775	-	(15,350)	(1,575)
As at 31 December 2015	**1,245,976**	**2,560**	**406,003**	**18,519**	**10,331**	**1,683,389**
Depreciation						
As at 1 January 2015	**-**	**2,289**	**265,803**	**18,505**	**-**	**286,597**
Increases:						
Amortization charge for the period	-	31	34,531	7	-	34,569
Other increases	-	-	405	-	-	405
Decreases:						
Liquidation	-	-	(10,061)	-	-	(10,061)
As at 31 December 2015	**-**	**2,320**	**290,678**	**18,512**	**-**	**311,510**
Carrying amount						
As at 1 January 2015	1,245,976	155	135,811	14	5,789	1,387,745
As at 31 December 2015	**1,245,976**	**240**	**115,325**	**7**	**10,331**	**1,371,879**

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**	**2,249**	**401,546**	**18,845**	**6,027**	**1,674,643**
Increases:						
Purchases	-	9	1,237	-	5,749	6,995
Other increases	-	-	50	-	-	50
Decreases:						
Disposals	-	-	(80)	(326)	-	(406)
Liquidation	-	-	(6,433)	-	-	(6,433)
Transfers	-	186	5,294	-	(5,987)	(507)
As at 31 December 2014	**1,245,976**	**2,444**	**401,614**	**18,519**	**5,789**	**1,674,342**
Depreciation						
As at 1 January 2014	**-**	**2,121**	**236,332**	**18,827**	**-**	**257,280**
Increases:						
Amortization charge for the period	-	168	35,352	7	-	35,527
Other increases	-	-	393	-	-	393
Decreases:						
Disposals	-	-	(77)	(329)	-	(406)
Liquidation	-	-	(6,166)	-	-	(6,166)
Other decreases	-	-	(31)	-	-	(31)
As at 31 December 2014	**-**	**2,289**	**265,803**	**18,505**	**-**	**286,597**
Carrying amount						
As at 1 January 2014	1,245,976	128	165,214	18	6,027	1,417,363
As at 31 December 2014	**1,245,976**	**155**	**135,811**	**14**	**5,789**	**1,387,745**

As at 31 December 2015, 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: Institutional Bank and Consumer Bank. Assignment was made on basis of discounted cash flows models on the 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	**31.12.2015**
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 of the 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 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 2015, the discount rate amounted to 9.10% (8.45% at the end of 2014).

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 2015.

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 and liabilities

PLN'000	**31.12.2015**	**31.12.2014**
Deferred income tax asset	568,132	1,155,827
Deferred income tax liability	(406,546)	(998,508)
Deferred income tax net asset	**161,586**	**157,319**

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 tax asset is attributable to the following:

PLN'000	**31.12.2015**	**31.12.2014**
Interest accrued and other expense	14,652	23,217
Revaluation impairment write-offs	25,767	51,768
Unrealized premium from securities	8,273	10,531
Derivative financial instruments negative valuation	374,132	956,637
Negative valuation of securities held-for-trading	2,892	3,866
Income collected in advance	19,023	8,469
Valuation of shares	2,545	2,916
Commissions	8,526	7,511
Debt and equity securities available-for-sale	38,378	-
Staff expenses and other cost due to pay	56,744	65,189
Differences between balance-sheet and tax value of leases	(4,768)	790

PLN'000	**31.12.2015**	**31.12.2014**
Other	21,968	24,933
Deferred tax asset	**568,132**	**1,155,827**

Deferred tax liability is attributable to the following:

PLN'000	**31.12.2015**	**31.12.2014**
Interest accrued (income)	21,587	28,936
Derivative financial instruments positive valuation	318,957	929,863
Unrealized securities discount	1,105	789
Income to receive	4,131	4,864
Positive valuation of securities held-for-trading	1,950	1,533
Debt and equity securities available-for-sale	18,602	14,430
Investment relief	13,236	14,351
Valuations of shares	1,875	1,863
Other	25,103	1,879
Deferred tax liability	**406,546**	**998,508**

Net deferred income tax asset	**161,586**	**157,319**

Movement in temporary differences during the year 2015

The movement in temporary differences relating to deferred tax asset:

PLN'000	**As at 1 January 2015**	**Adjustments recognized in income**	**Adjustments recognized in equity**	**As at 31 December 2015**
Interest accrued and other expense	23,217	(8,565)		14,652
Revaluation impairment write-offs	51,768	(26,001)	-	25,767
Unrealized premium from securities	10,531	(2,258)	-	8,273
Derivative financial instruments negative valuation	956,637	(582,505)	-	374,132
Negative valuation of securities held-for-trading	3,866	(974)	-	2,892
Income collected in advance	8,469	10,554	-	19,023
Valuation of shares	2,916	(371)	-	2,545
Commissions	7,511	1,015	-	8,526
Debt and equity securities available-for-sale	-	-	38,378	38,378
Staff expenses and other cost due to pay	65,189	(8,238)	(207)	56,744
Differences between balance-sheet and tax value of leases	790	(5,558)	-	(4,768)
Other	24,933	(2,965)	-	21,968
	1,155,827	**(625,866)**	**38,171**	**568,132**

The movement in temporary differences relating to deferred tax provision:

PLN'000	**As at 1 January 2015**	**Adjustments recognized in income**	**Adjustments recognized in equity**	**As at 31 December 2015**
Interest accrued (income)	28,936	(7,349)		21,587
Derivative financial instruments positive valuation	929,863	(610,906)	-	318,957
Unrealized securities discount	789	316	-	1,105
Income to receive	4,864	(733)	-	4,131
Positive valuation of securities held-for-trading	1,533	417	-	1,950
Debt and equity securities available-for-sale	14,430	16,574	(12,402)	18,602
Investment relief	14,351	(1,115)	-	13,236
Valuations of shares	1,863	12	-	1,875

PLN'000	As at 1 January 2015	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2015
Other	1,879	23,224	-	25,103
	998,508	**(579,560)**	**(12,402)**	**406,546**
Change in net deferred income tax assets	**157,319**	**(46,305)**	**50,572**	**161,586**

Movement in temporary differences during the year 2014

The movement in temporary differences relating to deferred 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	25,615	(2,398)	-	23,217
Revaluation impairment write-offs	86,678	(34,910)	-	51,768
Unrealized premium from securities	3,445	7,086	-	10,531
Derivative financial instruments negative valuation	583,798	372,839	-	956,637
Negative valuation of securities held-for-trading	2,514	1,352	-	3,866
Income collected in advance	11,213	(2,744)	-	8,469
Valuation of shares	4,662	(1,746)	-	2,916
Commissions	9,599	(2,088)	-	7,511
Debt and equity securities available-for-sale	10,078	-	(10,078)	-
Staff expenses and other cost due to pay	75,132	(11,326)	1,383	65,189
Differences between balance-sheet and tax value of leases	790	-	-	790
Other	16,596	8,337	-	24,933
	830,120	**334,402**	**(8,695)**	**1,155,827**

The movement in temporary differences relating to deferred tax liability:

PLN'000	As at 1 January 2014	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2014
Interest accrued (income)	20,893	8,043	-	28,936
Derivative financial instruments positive valuation	561,273	368,590	-	929,863
Unrealized securities 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 and equity securities available-for-sale	5,030	(3,002)	12,402	14,430
Investment relief	15,853	(1,502)	-	14,351
Valuations of shares	1,858	5	-	1,863
Other	13,294	(11,415)	-	1,879
	626,988	**359,118**	**12,402**	**998,508**
Change in net deferred income tax assets	**203,132**	**(24,716)**	**(21,097)**	**157,319**

29. Other assets

PLN'000	31.12.2015	31.12.2014
Interbank settlements	4,357	1,128
Settlements related to brokerage activity	114,456	215,786
Income to receive	66,509	47,311
Staff loans out of the Social Fund	17,722	18,989

PLN'000	**31.12.2015**	**31.12.2014**
Sundry debtors	67,192	91,773
Prepayments	7,046	9,625
Other	703	-
Other assets, total	**277,985**	**384,612**
Including financial assets*	204,430	327,676

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

30. Amounts due to banks

PLN'000	**31.12.2015**	**31.12.2014**
Current accounts	681,202	663,831
Term deposits	4,460,693	2,370,212
Loans and advances received	198,203	351,533
Liabilities due to sold securities under repurchase agreements	1,623,456	1,726,049
Other liabilities	7	10,951
Total amounts due to banks	**6,963,561**	**5,122,576**

31. Amounts due to customers

PLN'000	**31.12.2015**	**31.12.2014**
Deposits from financial sector entities		
Current accounts	226,438	238,351
Term deposits	3,154,694	2,877,084
	3,381,132	**3,115,435**
Deposits from non-financial sector entities		
Current accounts, including:	20,194,711	19,299,093
institutional customers	10,454,683	8,594,113
individual customers	7,074,422	6,372,762
public sector units	2,665,606	4,332,218
Term deposits, including:	7,699,698	7,085,420
institutional customers	5,972,704	5,668,835
individual customers	1,667,610	1,289,231
public sector units	59,384	127,354
	27,894,409	**26,384,513**
Total deposits	**31,275,541**	**29,499,948**
Other liabilities		
Securities sold under repurchase agreements	188,505	-
Other liabilities, including:	122,257	132,650
liabilities due to deposits	99,207	78,153
Total other liabilities	**310,762**	**132,650**
Total amounts due to customers	**31,586,303**	**29,632,598**

32. Provisions

PLN'000	31.12.2015	31.12.2014
Litigation	10,522	9,634
Granted financial and guarantee liabilities	10,451	13,238
Workforce restructuring	680	158
Restructuring of the branch network	1,841	3,379
Provisions, total	**23,494**	**26,409**

The movement in provisions is as follows:

PLN'000	2015	2014
As at 1 January	**26,409**	**89,284**
Provisions for:		
Litigation	9,634	15,313
Granted financial and guarantee commitments	13,238	13,150
Workforce restructuring	158	53,787
Restructuring of branches chain	3,379	7,034
Increases:		
Charges to provisions in the period:	44,720	42,725
litigation	16,775	4,693
granted financial and guarantee commitments	25,956	31,101
workforce restructuring	680	158
restructuring of the branch network	1,309	6,773
Other increases in provisions, including:	-	1
for litigation	-	1
Decreases:		
Release of provisions in the period	(30,808)	(46,517)
litigation	(1,207)	(10,373)
granted financial and guarantee commitments	(28,743)	(31,013)
employment restructuring	(158)	(4,496)
restructuring of the branch network	(700)	(635)
Provisions used in the period, including:	(16,827)	(59,084)
litigation	(14,680)	-
workforce restructuring	-	(49,291)
restructuring of the branch network	(2,147)	(9,793)
As at 31 December	**23,494**	**26,409**

33. Other liabilities

PLN'000	31.12.2015	31.12.2014
Staff benefits	48,212	51,177
Interbank settlements	95,534	70,089
Settlements related to brokerage activity	118,405	214,167
Settlements with Tax Office and National Insurance (ZUS)	20,120	23,297
Sundry creditors	115,900	134,470
Accruals:	298,774	363,723
Provision for employee payments	107,759	123,882
Provision for employee retirement	38,084	40,677
Provision for employee jubilee payments	-	268
IT services and bank operations support	78,939	113,059
Consultancy services and business support	21,942	26,248

PLN'000	31.12.2015	31.12.2014
Other	52,050	59,589
Deferred income	25,927	20,328
Other	-	2,963
Other liabilities, total	**722,872**	**880,214**
Including financial liabilities*	676,825	836,589

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

34. Financial assets and liabilities by contractual maturity

As at 31 December 2015

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)	18	758,853	519,475	4,408	38,000	196,970	-
Financial assets held-for-trading							
Debt securities held-for-trading	19	4,692,560	163,238	-	1,822,346	1,198,152	1,508,824
Financial assets available-for-sale							
Debt securities available-for-sale	21	18,351,259	-	-	131,604	11,781,131	6,438,524
Amounts due from customers (gross)							
Amounts due from financial sector entities	24	2,050,985	1,527,285	70,135	213,565	240,000	-
Amounts due from non-financial sector entities	24	17,509,892	7,456,761	1,357,325	2,328,206	4,904,883	1,462,717
Amounts due to banks	30	6,963,561	5,986,214	750,000	69,848	157,468	31
Amounts due to customers							
Amounts due to financial sector entities	31	3,569,648	3,451,621	112,616	4,755	639	17
Amounts due to non-financial sector entities	31	28,016,655	27,237,673	519,395	247,844	11,690	53

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)	18	2,068,565	1,508,644	216	354,470	205,235	-
Financial assets held-for-trading							
Debt securities held-for-trading	19	7,096,875	162	179,636	759,557	4,611,917	1,545,603
Financial assets available-for-sale							
Debt securities available-for-sale	21	14,435,099	4,499,750	111,492	-	6,598,749	3,225,108
Amounts due from customers (gross)							
Amounts due from financial sector entities	24	1,040,446	689,652	70,000	240,794	40,000	-
Amounts due from non-financial sector entities	24	16,528,932	7,712,220	1,433,757	1,533,266	4,498,125	1,351,564
Amounts due to banks	30	5,122,576	2,821,022	72,758	1,967,676	228,679	32,441
Amounts due to customers							
Amounts due to financial sector entities	31	3,115,435	3,068,882	42,988	2,912	639	14
Amounts due to non-financial sector entities	31	26,517,163	25,756,115	445,186	303,973	11,826	63

35. 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 2015, 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 2014.

The Bank has not issued preferred shares.

Both in 2015 and 2014 there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2015 and 31 December 2014, 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 2015 and during the period from the publication of the previous interim quarterly report for Q3 2015 until the day of the publication of this annual consolidated financial statements for 2015, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2015, supplementary capital was PLN 3,001,525 thousand (31 December 2014: PLN 3,000,298 thousand). Supplementary capital is designated for offsetting financial losses or for other purposes including payment of dividends to the shareholders. The General Shareholders' Meeting of the Bank 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 includes amount of 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	31.12.2015	31.12.2014
Revaluation of financial assets available-for-sale	**(163,613)**	**52,873**

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, retained earnings that were previously presented in the other comprehensive and accumulated income in “Revaluation reserve” are reclassified to the income statement.

Other reserves

PLN'000	31.12.2015	31.12.2014
Reserve capital	2,349,602	2,374,496
General risk reserve	521,000	521,000
Net actuarial losses on specific services program valuation	(5,012)	(5,898)
Foreign currency translation adjustment	3,919	3,925
Other reserves, total	**2,869,509**	**2,893,523**

On 22 June 2015 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2014, deciding to appropriate the amount of PLN 622 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 financial position losses or for other purposes, including payment of dividends to the shareholders. The General Shareholders’ Meeting of the Bank 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 of the Bank makes decisions on utilization of the general risk reserve subject to applicable regulations.

Dividends

Dividends paid for 2014

At the meeting on June 22, 2015, the Ordinary General Meeting of Shareholders of the Bank Handlowy w Warszawie S.A. (hereinafter **WZ**) adopted a resolution on distribution of the net profit for 2014. The WZ resolved to appropriate the amount of PLN 970,800,828.00 the dividend payment, which means that the dividend per one ordinary share is PLN 7.43. 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 6, 2015 (day of dividend) and the day of the dividend payment for July 24, 2015 (day of the dividend payment).

.

Declared dividends

On 3 March 2016, the Bank’s Management Board adopted a resolution on the proposed distribution of profit for 2015. The Bank’s Management Board has proposed to allocate the amount of PLN 611,486,928.00 for dividend payment. The dividend has cash character. This means that the dividend per share amounts to PLN 4.68. The number of shares covered by dividends is 130,659,600. The dividend record date was designated as 4 July 2016 and the dividend payment date was designated as 21 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.

36. Repurchase and reverse repurchase agreements

Repurchase agreements

The Group 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 2015, 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 held for trading	374,878	374,869	Up to 1 week	374,901
Debt securities available-for-sale	1,460,086	1,437,092	Up to 1 week	1,437,254

**including interes*

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*

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

As at 31 December 2015 and as at 31 December 2014, assets sold through repo cannot be further traded.

In 2015, the total interest expense on repurchase agreements was PLN 7 158 thousand (in 2014: PLN 14,086 thousand).

Reverse repurchase agreements

The Group 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 2015, 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	18,142	18,169	Up to 1 week	18,144
	196,965	182,177	Up to 2 years	178,886
Amounts due from customers:				
from financial sector entities	1,356,247	1,360,227	Up to 1 week	1,356,441

**including interest*

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 2015 and 31 December 2014, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2015, the total interest income on reverse repurchase agreements was PLN 36,175 thousand (in 2014: PLN 42,230 thousand).

As at 31 December 2015 the liabilities due to short sale of securities purchased in the reverse repo transactions amounted to PLN 988,102 thousand (as at 31 December 2014: PLN 1,005,545 thousand).

37. Offsetting of financial assets and financial liabilities

According to information in Note 2, the Group 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.

w tys. zł	31.12.2015		31.12.2014	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	2,172,436	2,184,726	5,476,854	5,597,147
Value of collateral received/placed	(94,442)	(220,020)	(180,008)	(359,622)
Assets and liabilities subject to offsetting under the master agreement	**2,077,994**	**1,964,706**	**5,296,846**	**5,237,525**
Maximum amount of potential offset	(1,913,847)	(1,913,847)	(5,225,136)	(5,225,136)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**164,147**	**50,859**	**71,710**	**12,389**

38. Hedge accounting

The Group 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.

Fair value of instruments within fair value hedge accounting of securities

PLN'000	31.12.2015		31.12.2014	
	Nominal value	Fair value	Nominal value	Fair value
Hedged instruments				
Debt securities available-for-sale				
Treasury bonds	4,431,015	4,657,996	-	-
Hedging instruments				
Derivative instruments				
Interest rate swaps – positive valuation	780,220	1,795	-	-
Interest rate swaps – negative valuation	3,650,795	112,383	-	-

39. 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 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 2015

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value
Financial assets							
Cash and balances with Central Bank	17	-	2,170,237	-	-	2,170,237	2,170,237
Amounts due from banks	18	-	757,103	-	-	757,103	757,105
Financial assets held-for-trading	19	6,987,284	-	-	-	6,987,284	6,987,284
Hedging derivatives	20	1,795	-	-	-	1,795	1,795
Debt securities available-for-sale	21	-	-	18,351,259	-	18,351,259	18,351,259
Equity investments valued at equity method	22	-	-	-	7,768	7,768	7,768
Equity investments available-for-sale	23	-	-	67,744	-	67,744	67,744
Amounts due from customers	24	-	18,975,471	-	-	18,975,471	19,051,525
		6,989,079	**21,902,811**	**18,419,003**	**7,768**	**47,318,661**	**47,394,717**
Financial liabilities							
Amounts due to banks	30	-	-	-	6,963,561	6,963,561	6,963,525
Financial liabilities held-for-trading	19	3,247,523	-	-	-	3,247,523	3,247,523
Hedging derivatives	20	112,383	-	-	-	112,383	112,383
Amounts due to customers	31	-	-	-	31,586,303	31,586,303	31,585,503
		3,359,906	**-**	**-**	**38,549,864**	**41,909,770**	**41,908,934**

As at 31 December 2014

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value
Financial assets							
Cash and balances with Central Bank	17	-	1,522,949	-	-	1,522,949	1,522,949
Amounts due from banks	18	-	2,065,685	-	-	2,065,685	2,070,670
Financial assets held-for-trading	19	12,721,573	-	-	-	12,721,573	12,721,573
Debt securities available-for-sale	21	-	-	14,435,099	-	14,435,099	14,435,099
Equity investments valued at equity method	22	-	-	-	7,765	7,765	7,765
Equity investments available-for-sale	23	-	-	8,211	-	8,211	8,211
Amounts due from customers	24	-	16,770,482	-	-	16,770,482	16,770,482
		12,721,573	**20,359,116**	**14,443,310**	**7,765**	**47,531,764**	**47,536,749**
Financial liabilities							
Amounts due to banks	30	-	-	-	5,122,576	5,122,576	5,120,810

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value
Financial liabilities held-for-trading	19	6,770,922	-	-	-	6,770,922	6,769,403
Amounts due to customers	31	-	-	-	29 632 598	29 632 598	29 632 598
		6 770 922	**-**	**-**	**34 755 174**	**41 526 096**	**41 522 811**

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 2015, the Group did not make any changes in the classification of financial instruments (presented by the fair value method in the consolidated 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 consolidated statement of financial position measured at fair value, arranged according to the above categories:

As at 31 December 2015

PLN'000	Note	Level I	Level II	Level II	Total
Financial assets					
Financial assets held-for-trading	19	4,307,386	2,679,898	-	6,987,284
derivatives		154	2,266,978	-	2,267,132
debt securities		4,279,640	412,920	-	4,692,560
equity instruments		27,592	-	-	27,592
Hedging derivatives	20	-	1,795	-	1,795
Debt securities available-for-sale	21	16,842,252	1,509,007	-	18,351,259
Equity investments	23	1,006	-	63,323	64,329
Financial liabilities					
Financial liabilities held-for-trading	19	988,485	2,259,038	-	3,247,523
short sale of securities		988,102	-	-	988,102
derivatives		383	2,259,038	-	2,259,421
Hedging derivatives	20	-	112,383	-	112,383

As at 31 December 2014

PLN'000	Note	Level I	Level II	Total
Financial assets				
Financial assets held-for-trading	19	6,944,544	5,777,029	12,721,573
derivatives		-	5,624,460	5,624,460
debt securities		6,944,306	152,569	7,096,875
equity instruments		238	-	238
Debt securities available-for-sale	21	8,753,310	5,681,789	14,435,099

PLN'000	Note	Level I	Level II	Total
Financial liabilities				
Financial liabilities held-for-trading	19	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 2015, changes of financial assets and liabilities priced up to the fair value determined using non-market parameters of importance are presented the table below:

PLN'000	Financial assets available-for-sale
	Equity investments
As at January 2015	**-**
sum of increases and decreases	
in income statement	-
In statement of comprehensive income	63 323
As at December 2015	**63 323**

On the 31st of December 2015 the amount of financial assets classified to the Level III includes the share of PLN 63 323 thousand in Visa Europe Ltd. Pricing to the fair value was carried out using information held by the Bank in relation to the acquisition transaction of Visa Europe Ltd. by Visa Inc.

The Management Board of Bank Handlowy w Warszawie S.A. has received the information regarding the proposed allocation of settlement of the Visa Europe Limited takeover by Visa Inc. The Bank's share in the purchase price includes:

(a) EUR 14,859,232.00 in cash, equivalent of PLN 63,322,617.17 at the average NBP exchange rate of December 31, 2015;

(b) EUR 5,098,891.00 in Visa Inc. stock, equivalent of PLN 21,728,924 at the average NBP exchange rate of December 31, 2015.

The above amounts can be adjusted with the transaction costs and following potential justified requests for adjustment of the awarded amounts submitted by Visa Europe members. Visa Europe members hold the right to appeal. The process of reviewing appeals will last until 1 March 2016. The final amounts allocated on individual participants of the transaction will be known on its finalization (closing date), which is expected in the second quarter of 2016. The transaction is subject to regulatory approvals.

The transaction between Visa Inc. and Visa Europe provides for a conditional payment, "earn-out" type and payable in cash after the period of 16 quarters after the settlement of the transaction, of which impact on the Bank's result is unknown.

Accordingly, as at 31 December 2015, the Bank has determined the fair value of the share in Visa Europe Ltd in the amount of EUR 14,859,232.00 – equivalent PLN 63,322,617,17 (at the average NBP exchange rate as of 31 December 2015), and the difference between the previous value of the share of PLN 45 and determined fair value has been recognized in other comprehensive income.

The Bank had not taken into valuation the equity part due to the lack of possibility of fair value reliable estimation on the December 31, 2015.

In 2015 and 2014, the Group did not make any transfers between levels of financial instruments fair value according to used method of establishing fair value.

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.

Other equity investments

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

In 2015, among all equity investments, where fair value could not be established, the Group sold the shares in Polski Koncern Mięsny DUDA S.A representing 2.81% of the share in the capital and 2.81% of votes at the General Meeting.The balance value of sold shares amounted to PLN 3,517 thousand.

In 2014, from capital investments, of which the fair value could not be measured, the Group sold shares in:
- 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 to PLN 1,536 thousand;
- Part of 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 to PLN 5,649 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.

The methods of valuation mentionedabove are classify to the third level fair value hierarchy financial: assets valued on the basis of valuation techniques using relevant parameters not market-based.

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 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 Group 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 Group believes that the fair value is generally approximates the carrying value

40. Contingent liabilities and litigation proceedings

Information on pending proceedings

In 2015, there was no single proceeding regarding receivables and liabilities of the Bank or a subsidiary of the Bank, 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 or liabilities with the participation of the Bank and subsidiaries of the Bank did not exceed 10% of the Bank's equity in 2015.

Total value of liabilities of Bank and its subsidiaries on all pending legal proceedings did not exceed 10% of Bank's equity in 2015.

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

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

As at 31 December 2015, the Bank was among others a party to 17 court proceedings associated directly with derivative transactions that have not been legally terminated: in 10 proceedings the Bank acted as a defendant and in 7 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions;

they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank. In 2015, in court proceedings associated with derivative transactions, where the Bank was defendant or plaintiff 8 have been legally terminated were issued 4 in favor of the Bank and in 4 cases Bank concluded a compromise.

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

In 2015, the Bank made significant settlement due to court case. As the result of dispute's final settlement, the Bank has made a sentenced payment to two plaintiff in the amount of PLN 16 291 thousand, there was provision made in 2015 for major part of this amount.

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	**31.12.2015**	**31.12.2014**
Financial and guarantees liabilities granted		
Letters of credit	160,400	208,126
Guarantees granted	2,101,477	1,779,425
Credit lines granted	14,618,126	13,161,336
Underwriting other issuers' securities issues	1,138,000	1,264,450
Other guarantees	29,531	33,583
Reverse repurchase transactions with future currency date	-	189,650
	18,047,534	**16,636,570**

PLN'000	**31.12.2015**	**31.12.2014**
Letters of credit by category		
Import letters of credit issued	160,065	207,208
Export letters of credit confirmed	335	918
	160,400	**208,126**

The Group makes provisions for financial and guarantees commitments granted. As at 31 December 2015, the provisions created for financial and guarantees commitments granted amounted to PLN 10,451 thousand (31 December 2014: PLN 13,238 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	**31.12.2015**	**31.12.2014**
Financial and guarantees liabilities received		
Finance	-	708,148
Guarantees	15,470,264	6,199,449
	15,470,264	**6,907,597**

41. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2015	31.12.2014
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	1,623,456	1,726,049
credit received	143,903	208,341
Amounts due to customers		
securities sale and repurchase agreements	188,505	-
	1,955,864	**1,934,390**

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

PLN'000	31.12.2015	31.12.2014
Assets pledged		
Debt securities held-for-trading	186,373	-
Debt securities available-for-sale	1,943,149	2,194,933
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market trading	286,641	381,971
Amounts due from customers		
Stock market trading guarantee funds and settlements	186,007	98,011
Other assets		
Settlement of transactions in financial instruments	-	-
	2,602,170	**2,674,915**

As at 31 December 2015, 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 of PLN 208,791 thousand (31 December 2014: PLN 176,088 thousand) collateral against credit received: PLN 274,272 thousand (31 Decemeber 2014:PLN 294,575 thousand) and the collateral against securities sold with repurchase agreement in the amount of PLN 1,460,086 thousand (31 December 2014: PLN 1,724,270 thousand).

Debt securities held-for-trading as at 31 December 2015 constitute collateral of the Bank's obligations under securities sold with repurchase agreement.

In addition, one of the repo transaction is hadged by reverse repo transaction balance receivables in the amount of PLN 188,505 thousand).

For more details on assets covering the Bank's obligations under repo transactions, see Note 36.

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

42. 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 2015, the Bank maintained approx. 10.8 thousand securities accounts (31 December 2014: over 10 thousand accounts).

43. Operating leases

Leases where the Group is the lessee

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

PLN'000	**31.12.2015**	**31.12.2014**
Less than 1 year	31,629	34,411
Between 1 and 5 years	65,787	80,799
More than 5 years	11,748	2,876
	109,164	**118,086**
Total annual rentals for contracts for an unspecified period of time	**2,522**	**2,884**

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

Most of the ffice 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 2015 amounted to PLN 34,709 thousand (in 2014: PLN 36,129 thousand).

The car leases are signed for 4 years. Lease payments are based on fixed interest rate during all lease period. In 2015, total amount of leasing fees amounted to PLN 4,253 thousand (in 2014: PLN 1,169 thousand).

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

Leases where the Group is the lessor

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

PLN'000	**31.12.2015**	**31.12.2014**
Less than 1 year	1,864	2,223
Between 1 and 5 years	1,926	2,416
	3,790	**4,639**
Total annual rentals for contracts for an unspecified period of time	**8,502**	**8,712**

The Group 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 2015 to PLN 9,199 thousand (in 2014: PLN 7,593 thousand).

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

44. Cash flow statement

Additional information:

PLN'000	**31.12.2015**	**31.12.2014**
Cash related items:		
Cash in hand	477,105	495,408
Nostro current account in Central Bank	1 693,132	1,027,541
Current accounts in other banks (nostro, overdrafts on loro accounts)	184,115	209,966
	2,354,352	**1,732,915**

45. Transactions with the key management personnel

PLN'000	31.12.2015		31.12.2014	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**1,103**	**-**	**2,771**	**-**
Deposits				
Current accounts	4,000	4,481	3,344	6,143
Term deposits	10,989	8,062	2,632	123
	14,989	**12,543**	**5,976**	**6,266**

As at 31 December 2015 and 31 December 2014, no loans or guarantees were granted to members of the Management Board and the Supervisory Board.

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

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

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

46. Related parties

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

In the normal course of business activities, Group entities enter into transactions with related parties, in particular with entities of Citigroup Inc.

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 Citigroup Inc. entities

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

PLN'000	31.12.2015	31.12.2014
Receivables, including:	174,358	277,201
Placements	-	104,914
Liabilities, including:	4,338,922	2,695,589
Deposits	3,801,172	2,081,553
Loans received	41,337	118,285
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	1,337,826	4,632,733
Assets of derivative hedging instruments	1 795	-
Liabilities held-for-trading	1,307,730	4,514,920
Liabilities due to hedging derivatives	90,464	-
Contingent liabilities granted	287,814	235,286
Contingent liabilities received	103,458	869,933

PLN'000	31.12.2015	31.12.2014
Contingent transactions in derivative instruments (nominal value), including:	96,302,028	235,984,565
Interest rate instruments	79,711,721	214,744,922
FRA	12,641,270	33,970,000
Interest rate swaps (IRS)	45,355,519	155,007,205
Currency – interest rate swaps (CIRS)	20,628,005	25,394,856
Interest rate options	172,638	304,832
Futures contracts	914,289	68,029
Currency instruments	15,964,479	20,708,532
FX forward/spot	1,229,628	879,675
FX swap	10,916,585	17,254,092
Foreign exchange options	3,818,266	2,574,765
Securities transactions	184,842	288,079
Securities purchased pending delivery	93,569	89,933
Securities sold pending delivery	91,273	198,146
Commodity transactions	440,986	243,032
Swaps	406,492	209,697
Options	34,494	33,335

PLN'000	2015	2014
Interest and commission income	65,996	51,562
Interest and commission expense	61,563	10,923

The Group 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 Group clients or close the proprietary position of the Group. The net carrying amount of financial derivative transactions as at 31 December 2015 amounted to PLN (58,573) thousand (as at 31 December 2014: PLN 117,813 thousand). The Bank runs a compression of derivative transaction portfolios' periodically. It is one of the risk-mitigation technique recommended by the "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulation this in particular applies to the portfolios exceeding 500 derivative transactions.

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

The costs arising and accrued (including VAT, reflected in the Group's costs) under concluded agreements in 2015 and 2014 mainly related to the cost of services provided to the Group 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 Group to such entities and is presented in other operating income.

PLN'000	2015	2014
General administrative expenses	183,754	173,003
Other operating income	8,968	8,000

In 2015 the capitalization of investments regarding functionality modification of retail banking IT systems took place. Total payments for Citigroup Inc. entities amounted to PLN 11,301 thousand (in 2014: PLN 1 070 thousand).

47. 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 Group 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 Group to its staff.

  A provision is created for future retirement allowances that is shown in the consolidated statement of financial position in "Other liabilities." An independent actuary periodically verifies the provision in accordance with IFRS.
  The Group's pension plan is a defined contribution program in accordance with IAS 19. The Group 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.

  Description of the Employee Pension Plan

  The Group 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 7%. 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 and under conditions 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	**31.12.2015**	**31.12.2014**
Provision for remuneration	66,424	70,941
Previsions for unused leave	19,789	20,693
Provision for employees' retirement and pension benefits	38,084	40,677
Provisions for employees' jubilee payments	-	268
Provision for employees' equity compensation	21,546	32,249
Provision for workforce restructuring	680	158
	146,523	**164,986**

The provision for retirement and pension benefits is created individually on the basis of an actuarial valuation performed periodically by an external independent actuary. The valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The Bank performed a reassessment of its estimates as at 31 December 2015, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. An important factor affecting the amount of the provision is the adopted financial discount rate which was adopted by the Bank at the level of 3.25%. In 2014 the adopted financial discount rate was 2.75%.

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

PLN'000	2015		2014	
	Provision for retirement allowances	Provision for jubilee payments	Provision for retirement allowances	Provision for jubilee payments
As at 1 January	**40,677**	**268**	**31,465**	**3,533**
Increases (due to):	3,478	-	10,758	1,717
Actuarial profit/loss on revaluation	(1,093)	-	7,281	-
Including these resulting from:				
Change of economic assumptions	(1,088)	-	3,912	-
Change of demographic assumptions	-	-	3,369	-
Experience adjustment	(5)	-		
Remuneration cost	3,450	-	1,706	1,649
Interest cost	1,172	-	1,422	-
Past employment cost	-	-	122	-
Provision write-offs	-	-	24	-
Other increases	(51)	-	203	68
Decreases (due to):	(6,071)	(268)	(1,546)	(4,982)
Past employment cost	(3,680)	-	(1,175)	-
Provisions utilisation	(2,391)	(268)	(275)	(4,100)
Reversal of provisions	-	-	(96)	(882)
As at 31 December	**38,084**	**-**	**40,677**	**268**

Analysis of sensivity for significant actuarial assumptions

w tys. zł	2015	2014
	Provision for retirement and pension allowances	Provision for retirement and pension allowances
Central value	38,084	40,677
Decrease of remuneration growth rate to 0.5%	35,340	35,122
Increase of remuneration growth rate to 2.5%	41,116	47,452
Rotation decrease by 10%	39,866	42,648
Rotation increase by 10%	36,471	38,900
Decrease of discount rate by 0.5%, including:	41,086	43,885
Falling to benefits paid withing 1 year	2,706	4,030
Increase of discount rate by 0.5%, including:	35,390	37,806
Falling to benefits paid withing 1 year	2,702	4,029

More information abouth specific services programs and their estimation can be found in note 2.

In 2015, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 25,286 thousand (in 2014: PLN 22,218 thousand).

Employment in the Group:

FTEs	2015	2014
Average employment in the year	4,146	4,355
Employment at the end of the year	3,986	4,170

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) or 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. In the year 2015 the SOP programme was completed. All the options which had not been completed until the 29th of October, 2015 expired.

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. As a general rule, the employee has his right for options revoked on the time of employment termination in the Citigroup, provided the termination of said contract „Capital Accumulation Program – Prospectus" for granted options. Deferred shares granted in 2011-2014 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 introduced "Variable Remuneration Components Policy For Managerial Staff At Bank Handlowy w Warszawie S.A." ("Policy"), according to requirements described in the Resolution 258/2011 of Komisja Nadzoru Finansowego (Polish Financial Supervisory Authority) dated 4-th of October 2011. According to 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
	18 of January 2016
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 2013-2016 in relation to the award from 2013, and in years 2014-2017 in relation to the award from 2014 and in years 2015-2018 and in relation to 2015 reward and in years 2016-2019 in respect of reward from 2016.
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 18 of January 2016
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 2013-2016 in relation to the award from 2013, and in years 2014-2017 in relation to the award from 2014 and in years 2015-2018 in relation to the award from 2015 reward and in years 2016-2019 n relation to the award from 2016.
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, 2014, 2015 and 2016. 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.

In 2015 the Bank adopted policy of key persons in the Bank Handlowy w Warszawie S.A remuneration specifying rules of payment for the members of the Board and other persons performing key functions, including the persons with significant influence regarding Bank's risk profile. This policy implements the provisions related to formulation of the remuneration principles in banks in accordance with law regulations, Principles of of Institutional Governance Rules for Supervised Institution adopted by the Polish Financial Supervision Auditory and Best Practices of GPW Listed Companies 2016.

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:

All the options in SOP programme had been executed or expired on December 31, 2015.

CAP Program	Grant date	Exercise price/stock price at grant date [USD]	Number of eligible employees	Number of options/ shares
1	17.01.2012	30.54	22	12,762
2	19.02.2013	43.93	11	4,485
3	18.02.2014	49.66	10	6,666
4	16.02.2015	50.07	3	2,113

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	34,768
2	20.01.2014	104.86	24	42,227
3	20.01.2015	103.98	33	59,616

	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 and 13.33% 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)	8.16%	8.16%	8.16%
Expected variances	23.56%	-	-
Risk free interest rate (for USD)	1.00%	-	-
Expected dividends (in USD per one share)	0.04	-	-
Fair value of one instrument* (in USD)	0.00 – 8.23 (USD)	51.75 (USD)	71.90 (PLN)

**Varies depending on the date of exercise*

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

	31.12.2015		31.12.2014	
	Number	Weighted average strike price [USD]	Number	Weighted average strike price [USD]
At the beginning of the period	73,465	40.80	93,699	45.36
Allocated in the period	-	-	-	-
Transfers	-	-	-	-
Redeemed in the period	51,220	52.94	18,138	52.66
Expired in the period	22,245	-	2,096	-
At the end of the period	-	-	73,465	40.80
Exercisable at the end of the period	-	-	73,465	40.80

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

	31.12.2015		31.12.2014	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	53,658	33.11	82,120	39.21
Allocated in the period	1,000	50.07	7,943	49.66
Transfers	3,250	43.89	4,336	40.20
Redeemed/expired in the period	31,882	-	40,741	-
At the end of the period	26,026	39.33	53,658	33.11

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

	31.12.2015		31.12.2014	
	Number	Weighted average share price [PLN]	Number	Weighted average share price [PLN]
At the beginning of the period	132,876	100.24	104,302	96.03
Allocated in the period	116,484	103.98	122,566	104.86
Executed in the period	112,749	91.86	93,992	109.10
Redeemed/expired In the period	-	-	-	-
At the end of the period	136,611	102.23	132,876	100.24

On 31 December 2015, the book value of liabilities from the phantom share and SOP and CAP programs amounted to PLN 30,686 thousand (31 December 2014: PLN 40,473 thousand). The costs recognized in this respect in 2015 amounted to PLN 9,816 thousand (in 2014: 16,696).

48. Risk management

RISK MANAGEMENT ORGANIZATION STRUCTURE AND PROCESS

The Group's activities involve analysis, assessment, approval and management of all kinds 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 Group's activity and the rules of prudent and stable risk management;
- approving a general level of the Group's risk appetite as part of the internal capital adequacy assessment process (ICAAP) document;
- approving the fundamental organizational structure of the Group, 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 Group, 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 determining significant types of risk, at the same time providing implementation of processes to manage them and/or allocation of interior equity;
- The principles of prudent and stable risk management which constitute, together with ICAAP Document, the risk management strategy, including operational risk strategy;
- General acceptable in Bank risk level ("risk appetite"), within the scope of summarizing the process of estimating and allocating interior equity for given year document.

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 Group 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 Group'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 Group 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 of equity process and 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).

Risk and Business 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 Group 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 Group'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 Group 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 Group.

Additionally, within the risk management system, the Group 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 Group 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 (further defined). 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 in the field of credit risk management is to support the long-term plan for the stable development of the credit portfolio while maintaining its proper quality. Credit risk is minimized through the Group's regulations and implemented controls.

Principles of the Credit Risk Management Policy

Risk Management unit 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, generaly accepted 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 authorities system assuming that credit authority can be given to authorized, trained and experienced staff based upon their professional experience and tested qualifications concerning the risk assessment and making credit decisions.

- 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 accordance with internal BHW normative acts and generally applicable laws and regulations issued by the appropriate regulators.

In the Consumer Bank (GCB), the Management Board of the Group 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 Group 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 dependents 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 Group uses scoring models developed on the basis of the history of behavior of the Group'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 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

Credit risk mitigation within the set risk appetite is an ongoing and key element of Bank's 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 Group 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 Group.

In order to diversify risks associated with collateral, the Group 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 Group 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 collateral value 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 Group 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 Group 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 Group. 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 2015, the financial effect of receivables recovered from collateral for receivables from customers with recognized impairment based on individual measurement in the Group amounted to PLN 42,387 thousand (31 December 2014: PLN 56,317 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 Group sets limits and manages exposures so as to ensure adequate risk diversification in the portfolio. In its credit risk management, the Group 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 Group’s internal classification);
- in a specific foreign currency;
- resulting from transactions generating counterparty credit risk (pre-settlement);
- against the group of the Group’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 Group.

In the obligor exposure management process, the Group 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 Group limits the concentration of its exposure to a single customer or a group of customers with common ownership or organization. As at 31 December 2015, the Group's exposure in bank portfolio transactions with groups of customers whose aggregate exposure exceeded 10% of the Group's equity (as defined below in this report) amounted to PLN 6,199,373 thousand, i.e., 130% of equity (31 December 2014: PLN 5,733,506 thousand, i.e., 116%). In 2015 and 2014 the Group complied with the provisions on limits of concentration of exposure.

Concentration of exposure to the top non-banking borrowers of the Group:

	31.12.2015			31.12.2014		
PLN'000	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
CLIENT 1	360,285	700,722	1,061,007	85,160	916,365	1,001,525
GROUP 2	120,987	791,637	912,624	2	756,906	756,908
CLIENT 3	500,000	250,000	750,000	575,100	341,450	916,550
CLIENT 4	700,000	-	700,000	550,000	-	550,000
GROUP 5	125,146	502,862	628,008	184,949	442,417	627,366
GROUP 6	3	601,358	601,361	1	203,730	203,731
GROUP 7	447,882	84,545	532,427	660,806	107,837	768,643
GROUP 8	419,442	94,426	513,868	93,464	44,768	138,232
CLIENT 9	-	500,078	500,078	-	500,051	500,051
CLIENT 10	450,000	-	450,000	463,200	-	463,200
GROUP 11	-	-	-	467,864	144,599	612,463
GROUP 12	-	-	-	220,486	176,527	397,013
Total	**3,123,745**	**3,525,628**	**6,649,373**	**3,301,032**	**3,634,650**	**6,935,682**

**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 2015, the Group had an exposure to one entity 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 Group's total capital requirement as at 31 December 2015.

*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 Group's gross exposure to the industrial sectors.

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2015		31.12.2014	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,416,137	17.8%	3,806,391	16.8%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,661,946	10.7%	2,191,652	9.7%
Financial intermediation, excluding insurance and pension funds	1,842,100	7.4%	2,198,632	9.7%
Retail trade, excluding retail trade in vehicles	1,413,278	5.7%	1,561,013	6.9%
Production of food and beverages	1,290,045	5.2%	1,376,794	6.1%
Metal ore mining	1,061,007	4.3%	1,001,440	4.4%
Production and processing of coke and petroleum products	848,866	3.4%	831,430	3.7%
Manufacture of electric appliances	842,923	3.4%	393,911	1.7%
Production of metal goods, excluding machines and equipment	689,814	2.8%	565,328	2.5%
Public administration and national defense obligatory social security	640,294	2.6%	624,132	2.7%
10 business sectors	**15,706,410**	**63.4%**	**14,550,723**	**64.1%**
Other sectors	**9,084,398**	**36.6%**	**8,160,387**	**35.9%**
Total	**24,790,808**	**100.0%**	**22,711,110**	**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		31.12.2015	31.12.2014
Gross amounts due from economic entities and banks			
Financial		2,713,279	3,379,035
Production		4,323,731	4,288,366
Services		1,034,349	930,776
Other		5,811,927	4,759,600
		13,883,286	**13,357,777**
Gross amounts due from individual customers		**6,436,445**	**6,280,166**
	(see Note 18, 24)	**20,319,730**	**19,637,943**

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 Group 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.

Irrespective of delinquency days, impaired exposures include exposures for which the Group 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 Group 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.

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.

It is required that 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 Group's portfolio grouped by receivables from customers with established impairment are and without impairment. The tables also present the details of impairment write-offs. Impaired receivables are divided into the classifiable portfolio (individual assessment) and the delinquency managed portfolio (portfolio assessment). Exposures without impairment are classified based on 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.

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 Group to credit risk:

PLN'000	Note	31.12.2015	31.12.2014
Receivables due from Central Bank	17	1,693,132	1,027,541
Gross receivables due from banks	18	758,853	2,068,565
Gross receivables due from institutional customers	24	13,124,432	11,289,212
Gross receivables due from individual customers	24	6,436,445	6,280,166
Debt securities held-for-trading	19	4,692,560	7,096,875
Derivative instruments	19	2,267,132	5,624,460
Hedging derivatives	20	1,795	-
Debt securities available-for-sale	21	18,351,259	14,435,099
Other financial assets	29	204,430	327,676
Contingent liabilities granted	40	18,047,534	16,636,570
		65,577,572	**64,786,164**

Commitment due to customers in terms of credit risk:

PLN'000	31.12.2015			31.12.2014		
	Amounts due from institutional customers	Amounts due from individual customers	Amounts due from banks	Amounts due from institutional customers	Amounts due from individual customers	Amounts due from banks
Impaired receivables						
Individual receivables						
Gross amount	**337,170**	**11,349**	**-**	**399,482**	**10,822**	**-**
Impairment write-off	290,809	5,523	-	336,205	3,696	-
Net amount	**46,361**	**5,826**	**-**	**63,277**	**7,126**	**-**
Portfolio receivables						
Gross amount	**23,889**	**327,216**	**-**	**57,087**	**471,158**	**-**
Impairment write-off	11,203	212,903	-	45,383	342,305	-
Net amount	**12,686**	**114,313**	**-**	**11,704**	**128,853**	**-**
Not impaired receivables						
by risk rating						
Risk rating 1-4-	9,640,258	-	591,378	7,696,261	-	1,877,441
Risk rating +5-6-	2,915,852	-	167,475	2,902,248	-	191,124
Risk rating +7 and greater	207,263	-	-	234,134	-	-
by delinquency						
no delinquency	-	5,847,336	-	-	5,546,235	-
1–30 days	-	202,475	-	-	198,755	-
31–90 days	-	48,069	-	-	53,196	-
Gross amount	**12,763,373**	**6,097,880**	**758,853**	**10,832,643**	**5,798,186**	**2,068,565**
Impairment	19,478	45,490	1,750	21,990	49,317	2,880
Net amount	**12,743,895**	**6,052,390**	**757,103**	**10,810,653**	**5,748,869**	**2,065,685**
Total net amount	**12,802,942**	**6,172,529**	**757,103**	**10,885,634**	**5,884,848**	**2,065,685**

PLN'000	31.12.2015 Amounts due from institutional customers	31.12.2015 Amounts due from individual customers	31.12.2015 Amounts due from banks	31.12.2014 Amounts due from institutional customers	31.12.2014 Amounts due from Individual customers	31.12.2014 Amounts due from banks
Impairment write-offs for impaired receivables						
Impairment write-offs for individual receivables	**290,809**	**5,523**	**-**	**336,205**	**3,696**	**-**
Impairment write-offs for portfolio receivables	**11,203**	**212,903**	**-**	**45,383**	**342,305**	**-**
IBNR provisions						
by risk rating						
Risk rating 1-4-	2,716	-	131	2,274	-	347
Risk rating +5-6	10,124	-	1,619	10,692	-	2,533
Risk rating +7 and greater	6,638	-	-	9,024	-	-
by delinquency						
no delinquency	-	16,993	-	-	18,545	-
1–30 days	-	11,083	-	-	12,245	-
31–90 days	-	17,414	-	-	18,527	-
	19,478	**45,490**	**1,750**	**21,990**	**49,317**	**2,880**
Total impairment write-offs	**321,490**	**263,916**	**1,750**	**403,578**	**395,318**	**2,880**

Receivables due from individual customers not impaired and without delay in payment in terms of overdue history

PLN'000	31.12.2015	31.12.2014
Receivables due from individual customers not impaired and without delay in payment, including:	**5,847,335**	**5,546,235**
receivables at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days)	344,435	288,910
receivables at least once have exceeded 90 days of delay in payment	5,824	6,694

Receivables not impaired by delinquency

PLN'000	31.12.2015 Amounts due from institutional customers	31.12.2015 Amounts due from individual customers	31.12.2015 Amounts due from banks	31.12.2014 Amounts due from institutional customers	31.12.2014 Amounts due from individual customers	31.12.2014 Amounts due from banks
Receivables with incurred but not recognized (IBNR) losses						
Regular receivables	12,716,875	5,847,335	758,853	10,782,601	5,546,235	2,068,565
Overdue receivables, including:	46,498	250,545	-	50,042	251,951	-
1-30 days	44,897	202,475	-	45,468	198,755	-
Gross amount	**12,763,373**	**6,097,880**	**758,853**	**10,832,643**	**5,798,186**	**2,068,565**

Structure of derivatives in terms of credit risk:

PLN'000	31.12.2015			31.12.2014		
	Transactions with institutional customers	Transactions with individual customers	Transactions with banks	Transactions with institutional customers	Transactions with individual customers	Transactions with banks
Derivatives by risk rating						
Risk rating 1-4-	157,940	2,176	2,071,473	108,828	2,287	5,462,464
Risk rating+5-6-	14,696	-	21,581	25,521	-	22,906
Risk rating +7and greater	1,061	-	-	2,451	-	3
Total	**173,697**	**2,176**	**2,093,054**	**136,800**	**2,287**	**5,485,373**

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.

PLN'000	31.12.2015		31.12.2014	
	Debt securities held-for-trading	Debt securities available-for-sale	Debt securities held-for-trading	Debt securities available-for-sale
Issuer rating by Fitch agency				
A (including from A to AAA)	4,330,816	18,351,259	5,651,492	14,435,099
BBB-	-	-	1,310,546	-
BBB	-	-	14,799	-
BBB+	361,744	-	-	-
No rating	-	-	120,038	-
Total	**4,692,560**	**18,351,259**	**7,096,875**	**14,435,099**

Other financial assets in the amount of PLN 204 430 thousand at the end of 2015 (PLN 327,676 thousand at the end of 2014) include receivables with delinquency over 90 days in the amount of PLN 1,824 thousand (PLN 1,278 thousand at the end of 2014).

Structure of granted contingent liabilities in terms of credit risk

PLN'000	31.12.2015		31.12.2014	
	Liabilities due to institutional customers	Liabilities due to banks	Liabilities due to institutional customers	Liabilities due to banks
Granted contingent liabilities by risk rating				
Risk rating 1-4-	9,737,033	260,594	8,875,154	360,793
Risk rating+5-6-	2,342,319	5,531	1,977,844	41,370
Risk rating +7and greater	117,362	-	110,261	-
Total	**12,196,714**	**266,125**	**10,963,259**	**402,163**

The granted contingent liabilities due to individual customers in terms of overdue history

PLN'000	31.12.2015	31.12.2014
Granted contingent liabilities due to individual customers, including:	**5,584,695**	**5,271,148**
contingent liabilities at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days)	307,782	264,365
contingent liabilities at least once have exceeded 90 days of delay in payment	1,748	1,571

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

PLN'000	31.12.2015	31.12.2014
Gross amount		
Receivables with recognized impairment, including:	699,624	938,549
Individual receivables	348,519	410,304
Portfolio receivables	351,105	528,245

PLN'000	31.12.2015	31.12.2014
Receivables without recognized impairment	19,620,106	18,699,394
Total gross amount	**20,319,730**	**19,637,943**
Impairment write-offs		
Receivables with recognized impairment, including:	520,438	727,589
Individual receivables	296,332	339,901
Portfolio receivables	224,106	387,688
Receivables without recognized impairment	66,718	74,187
Impairment write-offs in total	**587,156**	**801,776**
Net amount		
Receivables with recognized impairment, including:	179,186	210,960
Individual receivables	52,187	70,403
Portfolio receivables	126,999	140,557
Receivables without recognized impairment	19,553,388	18,625,207
Total net amount	**19,732,574**	**18,836,167**
Ratio of impairment write-offs to receivables with recognized impairment	**74.4%**	**77,5%**

"Forbearance" practices

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

The Group considers exposures as "forborne" that are in the process of troubled debt restructuring. This is a situation when the debtor is experiencing financial difficulties and BHW grants preferential financing conditions to the debtor that it would not otherwise consider (i.e., off-market terms).

Preferential financing conditions are considered situations in which for example the yield of the modified facility is lower than the contractual yield prior to the restructuring and/or the yield on the modified loan is below a market yield for the relevant tenor and credit risk.

The extent to which 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 Group assumes, that expousues 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 are insignificant, that is why Group monitors them at total level, without further portfolio splits.

w tys. zł	Wg stanu na dzień	
	31.12.2015	31.12.2014
Receivables without recognized impairment, including	18,861,253	16,630,827
non-financial sector entities	16,827,402	15,609,377
Institutional customers	10,729,522	9,811,190
Individual customers	6,097,880	5,798,187
Receivables with recognized impairment, including:	699,624	938,551

w tys. zł	Wg stanu na dzień	
	31.12.2015	31.12.2014
non-financial sector entities	682,490	919,555
Institutional customers, including:	343,925	437,575
„forborne”	74,991	63,529
Individual customers, including:	338,565	481,980
„forborne”	31,979	61,722
Total gross amount, including:	**19,560,877**	**17,569,378**
non-financial sector entities	17,509,892	16,528,932
Institutional customers, including:	11,073,447	10,248,765
„forborne”	74,991	63,529
Individual customers, including:	6,436,445	6,280,167
„forborne”	31,979	61,722
Impairment write-off	**(585,406)**	**(798,896)**
On „forborne” receivables	(62,073)	(76,273)
Total net amounts due from customers, including:	**18,975,471**	**16,770,482**
„forborne” receivables	44,897	48,978

“Forborne” exposures by period of overdue as at 31 December 2014

PLN’000	As of	
	31.12.2015	31.12.2014
Not past due	54,634	51,697
Past due, including:	52,336	73,554
Past due less than 30 days	2,635	4,907
Past due 31 - 90 days	4,565	6,450
Past due over 90 days	45,136	62,197
Total gross amount	**106,970**	**125,251**

LIQUIDITY RISK

The processes and organization of liquidity risk management

Liquidity risk is defined as the risk that the Group 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 Group 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;
- Persons delegated to risk management in the Group’s entities.

Liquidity management

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

The Group 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.

In 2015 the Bank implemented monitoring of the liquidity, along with restrictive limits based on the daily gap report that uses the stress test assumptions (S2). This change was made to match the approach of the liquidity gap assessment in real terms in the current liquidity risk management process with the methodology used for calculating Basel liquidity ratios LCR and NFSR. In addition to the change presented no significant changes in processes, procedures, systems, and policies regarding the management of liquidity risk.

Long-term liquidity management is the responsibility of ALCO and as such it is reflected in the Group'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 Group 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 Group 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 Group's nostro accounts and especially the mandatory reserve account with NBP while applying available money market products and central bank facilitates.

Liquidity management with accordance to "Risk management principals" in Group's entities is a part of the entities management board responsibilities. ALCO is the supervisor of the Group's entities liquidity supervisory.

Funding and Liquidity Plan

The Head of the Group's Treasury Division is responsible for preparing an annual Funding and Liquidity Plan ("Plan") for the Group 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's Group 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 Group'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 Group 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 2015 according to S2 method and 31 December 2014 according to previous method based on the study of the availability of funding in the wholesale market (MAR) are presented below.

The cumulative liquidity gap as at 31 December 2015 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	20,838,740	313,024	410,630	196,967	27,747,431
Liabilities and equity	12,603,752	2,682,201	87,424	59,609	34,073,806
Balance sheet gap in the period	8,234,988	(2,369,177)	323,206	137,358	(6,326,375)
Conditional derivative transactions – inflows	17,752,619	6,507,815	8,138,631	4,750,096	10,799,649
Conditional derivative transactions – outflows	17,618,109	6,565,980	8,125,367	4,761,800	10,976,369
Off-balance-sheet gap in the period	134,510	(58,165)	13,264	(11,704)	(176,720)
Cumulative gap	8,369,498	5,942,156	6,278,626	6,404,280	(98,815)

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	1,866,988	-	-	-	47,976,677
Liabilities and equity	8,447,582	137,026	1,853,836	177,219	39,228,002
Balance sheet gap in the period	(6,580,594)	(137,026)	(1,853,836)	(177,219)	8,748,675
Conditional derivative transactions – inflows	15,659,087	3,803,944	11,738,178	9,589,527	11,602,589
Conditional derivative 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	(7,036,775)	(7,357,508)	(8,961,876)	(9,279,628)	(349,421)

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

PLN'000	31.12.2015	31.12.2014	Change
Liquid assets, including:	24,951,511	22,752,411	2,199,100
nostro account in NBP and stable part of cash	1,907,692	1,220,437	687,255
debt securities held-for-trading	4,692,560	7,096,875	(2,404,315)
debt securities available-for-sale	18,351,259	14,435,099	3,916,160
Cumulative liquidity gap up to 1 year	6,278,626	(8,961,876)	na
Coverage of the gap with liquid assets	Positive gap	254%	na

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

As at 31 December 2015

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	30	6,963,564	5,986,217	750,000	69,848	157,468	31
Financial liabilities held-for-trading							
Short positions in financial assets	19	988,102	988,102	-	-	-	-
Amounts due to customers, including:	31	**31,586,315**	**30,689,306**	**632,011**	**252,599**	**12,329**	**70**
Deposits from financial sector entities	31	3,381,143	3,263,116	112,616	4,755	639	17
Deposits from non-financial sector entities	31	27,894,398	27,191,129	483,580	208,016	11,620	53
Other liabilities	31	310,774	235,061	35,815	39,828	70	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	1,797,159	63,520	102,212	208,112	955,916	467,399
Hedging derivatives	20	112,383	-	-	-	53,684	58,699
Unused credit lines liabilities	40	14,618,126	12,272,291	175,606	376,411	1,089,615	704,203
Guarantee lines	40	2,131,008	2,131,008	-	-	-	-
		58,196,657	**52,130,444**	**1,659,829**	**906,970**	**2,269,012**	**1,230,402**
Derivatives settled on a gross basis							
Inflows		47,262,699	17,657,248	6,433,442	8,035,146	10,778,834	4,358,029
Outflows		47,181,855	17,544,078	6,418,020	8,076,504	10,768,844	4,374,409
		80,844	**113,170**	**15,422**	**(41,358)**	**9,990**	**(16,380)**

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	30	5,122,583	2,821,029	72,758	1,967,676	228,679	32,441
Financial liabilities held-for-trading							
Short positions in financial assets	19	1,005,545	1,005,545	-	-	-	-
Amounts due to customers, including:	31	**29,632,599**	**28,824,998**	**488,174**	**306,885**	**12,465**	**77**
Deposits from financial sector entities	31	3,115,436	3,068,883	42,988	2,912	639	14
Deposits from non-financial sector entities	31	26,384,512	25,673,498	429,838	269,667	11,446	63
Other liabilities	31	132,651	82,617	15,348	34,306	380	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	5,021,507	60,576	105,369	451,135	2,929,929	1,474,498
Unused credit lines liabilities	40	13,161,336	11,757,667	76,320	141,646	974,907	210,796
Guarantee lines	40	1,813,008	1,813,008	-	-	-	-
		55,756,578	**46,282,823**	**742,621**	**2,867,342**	**4,145,980**	**1,717,812**

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
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)**

MARKET RISK

The processes and organization of market risk management

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

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

Market risk management in the Group 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 Group 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 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 Group. 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 Group 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 market/base 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 Group as at 31 December 2015 and 31 December 2014. The list has been broken down into the main currencies, i.e., PLN, USD and EUR, which jointly account for over 90% of the Group's balance-sheet.

PLN'000	31.12.2015		31.12.2014	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	27,809	60,086	50,057	144,859
USD	(14,093)	(70,011)	2,180	(16,129)
EUR	14,002	18,278	19,461	(1,521)

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

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

Activities relating to securities available-for-sale are the responsibility of the Assets and Liabilities Management 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 liquidity;
- hedging against the risk transferred to the Treasury Division from other organizational units of the Bank or the Group's entities;
- opening of own interest rate risk positions on the Group's books by the 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 Group 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 Group 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	31.12.2015			31.12.2014			Total in the period 01.01.2015 – 31.12.2015		
	Total	Securities	IRS	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(2,730)	(4,123)	1,393	(2,434)	(2,434)	-	(2,007)	(531)	(3,783)
USD	(933)	(1,365)	432	(447)	(447)	-	(524)	(25)	(1,455)
EUR	(208)	(208)	-	(556)	(556)	-	(191)	(89)	(562)

The Group'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 Group's trading portfolio, VaR is calculated at a 99% confidence level and a one-day holding period.

DV01 as well as VaR for the trading portfolio are calculated net of the economic hedge of the portfolio of securities available-for-sale, i.e., net of derivative instruments intended to hedge the fair value of the portfolio. The exposures to the risk of such transactions are mitigated through the application of relevant risk measurement methods and by the bank portfolio risk limits.
Each day, the Group runs stress tests on the assumption that the risk factors change by more than expected in the Value at Risk scenario and ignoring the historical correlations of these factors.

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

The values of significant exposures to the interest rate risk of the trading portfolios risk in terms of DV01 in 2015 are presented in the table below:

PLN'000	**31.12.2015**	**31.12.2014**	**In the period 01.01.2015 – 31.12.2015**		
			Average	**Maximum**	**Minimum**
PLN	(66)	(27)	(108)	625	(875)
EUR	(63)	(250)	(24)	145	(411)
USD	96	(36)	(44)	347	(273)

Average exposures to the interest rate risk in the local currency in 2015 was higher comapring to the level from the previous year and amounted to PLN 205 thousand. Average exposures to the interest rate risk in EUR were lower than in 2014 (DV01 amounted to PLN 82 thousand, compared to PLN 186 thousand in the previous year). Average exposure in EUR was at similar level than in 2014. The maximum exposure in PLN of the biggest exposures accepted by the Treasury Division was PLN 875 thousand compared to PLN 650 thousand in 2014 and the position in EUR amounted to PLN 411 thousand compared to PLN 565 thousand in the previous year.

The Treasury Division, which trades in financial instruments within the Group, 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 2015:

PLN'000	**31.12.2015**	**31.12.2014**	**In the period 1.01.2015– 31.12.2015**		
			Average	**Maximum**	**Minimum**
Currency risk	96	471	1,259	5,143	72
Interest rate risk	4,147	5,962	6,626	16,962	1,390
Spread risk	4,576	8,910	4,780	10,042	1,548
Total risk	6,061	10,763	8,724	18,375	3,700

The overall average level of the market risk of the trading portfolios was 20% lower in 2015 than the average level in 2014, representing an increase by over PLN 2,186 thousand, mainly as a result of higher exposures to basis spreads. The maximum price risk level was PLN 18,375 thousand, compared to PLN 15,513 thousand in 2014.

Equity instruments risk

Dom Maklerski Banku Handlowego S.A. ("DMBH") is the Group's key company trading in equity instruments. In its core business, DMBH has been authorized to accept pricing risk of the trading portfolio of shares, or rights to shares, traded or likely to be traded on the Warsaw Stock Exchange ("WSE"), or BondSpot, WIG20 index futures and Indexed Participation Units, as well as shares of companies dual-listed on the WSE which are traded on international stock exchanges. The pricing risk of DMBH's portfolios of instruments is managed by means of volume limits applicable to specific types of financial instruments and concentration warning thresholds applicable to instruments of specific issuers. Moreover, DMBH uses warning thresholds of potential loss under stress scenarios and the cumulative realized loss on the trading portfolio.

The Group's FX exposure

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

31.12.2015

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,116,186	4,241,177	16,721,542	15,477,990	118,561
USD	5,456,076	3,469,607	9,206,843	11,198,528	(5,216)
GBP	28,907	380,021	437,048	46,580	39,354
CHF	310,154	123,080	656,060	845,258	(2,124)
Other currencies	106,768	251,291	2,970,751	2,839,821	(13,593)
	9,018,091	**8,465,176**	**29,992,244**	**30,408,177**	**136,982**

** at present value which is the sum of discounted future cash flows*

31.12.2014

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,949,647	6,057,309	8,849,494	6,632,396	109,436
USD	2,573,782	2,096,467	2,660,851	3,188,933	(50,767)
GBP	130,366	155,204	28,289	3,907	(456)
CHF	664,911	86,988	22,648	599,256	1,315
Other currencies	1,082,488	71,961	1,002,056	2,014,879	(2,296)
	8,401,194	**8,467,929**	**12,563,338**	**12,439,371**	**57,232**

** at present value which is the sum of discounted future cash flows*

OPERATIONAL RISK

Assumptions of operational risk system

The strategic objective of operational risk management is to ensure a consistent and effective approach to identification, assessment, mitigation, control, monitoring and reporting of these risks, as well as the effective reduction of the level of exposure to operational risk, and consequently reduction of the amount of operational risk events and their severity (low level of tolerance policy for operating losses).

Operational risk management is also aimed at the full integration of this risk management processes into business decision-making processes (i.e. business strategy will be supported by an operational risk assessment, and the business will be assessed on the basis of pre-determined indicators of control and operational risk).

While organizing operational risk management process, Group takes into account business strategy, Group's risk profile, macroeconomic environment, available resources of capital and liquidity and regulatory requirements that constitute a framework for the preparation of operational risk control and management system in the Group.

The Management Board and subsidiaries' Management Boards is responsible for the development, implementation and operation of proper operational risk management system through the introduction of appropriate internal regulations, ensures consistency between operational risk management system and Group's Strategy, as well as its proper functioning within the organization through an analysis of information that allow to assess whether the system is adequate for operational risk profile. If needed, operational risk management system is reinforced through implementation of crucial improvements.

Operational risk management system in the Group is built in a way that ensures proper risk management at every stage, i.e.: identification, evaluation, mitigation, control, monitoring and reporting.

The implementation of the strategy by the Management Board shall be assessed by the Supervisory Board, assisted by Audit Committee and Risk and Capital Management Committee based on synthetic reports submitted by the Management Board at least once a year, determining the scale and types of operational risk that the Group is exposed to, methods of operational risk management, probability of its occurrence, assessment of potential negative impact of operational risk management methods, as well as results of operational risk profile and operational risk appetite monitoring. If necessary, after evaluation the Supervisory Board may request revision of the strategy.

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 (further defined). 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, Outsourcing risk, Misappropriation risk, Money Laundering risk, Information Security risk, External Events risk (Continuity of Business), Tax and Accounting risk, Product risk, Compliance risk, Legal risk, Models risk, and Staffing risk.

Rules of operational risk identification

Each Group's Business Unit identify all significant operational risks related to its processes. This includes identification by the Group's Management of risks associated with all material processes, products, human factors, systems and compliance with applicable laws, regulatory administrative actions, Group's internal regulations and the Group's strategy, taking into consideration also risk associated to dependence from other entities in the Group.

Operational Risk Profile

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

Target operational risk profile, was established with consideration of the scale and structure of operational risk, accepted appetite/tolerance for operational risk, analysis of historical data and utilizing tools applied for operational risk management. Established indicators are monitored for particular operational risk categories and main areas of Group's activity .

Assessment of particular risk category in main Group's areas, of main Group's areas and of whole Group is based on above mentioned risk indicators and experts assessment of results of regular business, market and control environment (BEICF-Business, Environmental and Internal Control Factors) monitoring. Profile is established and monitored on consolidated basis.

Assessment of main Group's areas and the entire Group is monitored in view of the target Risk Profile.

Measurement and assessment

The Group 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.

Risk tolerance framework, risk control and mitigation

Group sets tolerance levels for each operational risk category within determined risk appetite. Excess of the established level of tolerance thresholds for particular operational risk category requires undertaking of corrective actions in line with decision of Risk and Capital Management Committee.

Risk and Capital Management Committee and/or Management Board/Management Boards of subsidiaries can decide on the following treatment of the identified risks by:

- accepting (conscious avoidance of activities, aiming at mitigation of probability and results of event, including ensuring of funds for covering of potential losses);
- mitigation (mainly by adequate definition of processes, products, systems, procedures and implementation of control mechanisms);
- transfer (movement of part or whole risk related to particular threat to the external party, in particular by outsourcing of activity to external services provider or by insurance);
- avoidance of activities, leading to risk exposure.

In key aspects, processes of risk identification, self-assessment, measurement, monitoring and reporting are unified and generally accepted in all organizational units of the Group. Risk mitigation processes are determined for each entity, and may be different for individual units.

Control is a process designed to mitigate cause(s), reduce the probability of an event occurring and/or minimize the severity of an effect. Risk mitigation measures include also risk transfer mechanisms (outsourcing, insurance). Risk mitigation measures include internal controls as well as risk transfer mechanisms, i.e. transfer of part or whole risk related to given threat to external entity, in particular by outsourcing or insurance. Group regularly assesses and monitors the proper functioning of risk transfer mechanisms.

Monitoring and reporting

Risk and Capital Management Committee, supported by Commissions, is accountable for ongoing monitoring of operational risk. Quality and effectiveness of operational risk management processes (including the self-assessment process) in the respective organizational units of the Capital Group are subject of inspections and assessment carried out by the internal audit.

Within the consolidated oversight operational risk data of BHW and subsidiaries is presented to Commissions and Committees, supporting Management and Supervisory Board in operational risk management process.

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.

Based on synthetic reports, presented periodically by the Management Board at least once a year, prepared based on data resulting from operational risk monitoring, covering scale and types of operational risk the Group is exposed at, probability of its occurrence, dimension of its possible negative impact, operational risk management principles and the operational risk profile, Supervisory Board, supported by the Audit Committee and Risk and Capital Committee, monitors the effectiveness of internal control and risk management (in particular in relation to principles of operational risk management) and the Supervisory Board shall review the implementation by the Management of the strategy of operational risk management.

Assumptions of internal control of operational risk

Within Management Board, one of its members – Risk Management Sector Head - supervises Independent Control and Operational Risk Department.

Management Board is supported by Risk and Capital Management Committee and subordinated Commissions.

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.

Settings of control standards, as well as monitoring of operational risk for key risk categories are supported by specialized organizational units.

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.

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.

Audit Department (IA-Internal Audit) is responsible for independent assessment of effectiveness of operational risk management processes and assessment of adequacy and effectiveness of operational risk management system, as well as for its regular reviews. Results of internal and external audits are considered in the management information system, the process of decision taking with regard to risk management and management of the Bank.

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 Group's equity amounted to PLN 6,850,656 thousand as at 31 December 2015 (as at 31 December 2014: PLN 7,410,760 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 4,781,008 thousand (as at 31 December 2014: PLN 4,944,496 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 Group launched the process of estimating internal capital. The Group 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 Group's capital adequacy ratio is presented in the table below:

Capital adequacy ratio*

	PLN'000	31.12.2015	31.12.2014
I	**Common Equity Tier 1 Capital**	**4,781,008**	**4,944,496**
II	**Total capital requirements, including:**	**2,238,956**	**2,256,721**
	credit risk capital requirements	1,685,320	1,581,701
	counterparty risk capital requirements	78,682	87,247
	Credit valuation correction capital requrements	34,059	54,648
	excess concentration and large exposures risks capital requirements	16,418	64,549
	total market risk capital requirements	86,544	108,215
	operational risk capital requirements	337,933	350,484
	other capital requirements	-	9,877
	Common Equity Tier 1 Capital ratio	**17.1%**	**17.5%**

**Capital Adequacy Ratio was calculated according to the rules stated 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.*

In 2015, as well as in 2014, the Group complied with all the regulatory prudential standards on capital adequacy.

49. Subsequent events

The Act on tax on certain financial institutions of 15 January 2016 came into force on 1 February 2016 (Journal of Laws of 2016 Pos. 68).In the case of the Bank the taxable amount is an excess of the total assets of more than PLN 4 billion. The law provides for the possibility of reducing the tax base by the value of own funds and the value of assets in the form of Polish Treasury securities as at the last day of the month. The tax rate amounts to 0.0366% of the tax base per month. The first accounting period for which the Bank will make the calculation and payment of the tax is February 2016. Initially the Bank estimates the decrease on profit before taxation due to the tax on certain financial institutions will total up aprox. PLN 100 million per year. The amounts paid are not deductible for the purposes of income tax in the calculation of corporate income tax.

Signatures of Management Board Members

Date	Name	Position/function	Signature
07.03.2016	Sławomir S. Sikora	President of the Management Board	
07.03.2016	Maciej Kropidłowski	Vice-President of the Management Board	
07.03.2016	David Mouillé	Vice-President of the Management Board	
07.03.2016	Barbara Sobala	Vice-President of the Management Board	
07.03.2016	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	
07.03.2016	Katarzyna Majewska	Member of the Management Board	
07.03.2016	Czesław Piasek	Member of the Management Board	