Capital Group of

BANK HANDLOWY W WARSZAWIE S.A.

Annual Report 2019

March 2020

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2019	2018	2019	2018
Interest and similar income	1,406,479	1,304,514	326,954	292,899
Fee and commission income	653,409	638,961	151,893	149,748
Profit before tax	658,192	828,668	153,005	194,208
Net profit	480,124	638,852	111,611	149,723
Total comprehensive income	506,572	730,458	117,759	171,192
Increase/decrease of net cash	(3,678,117)	6,960,393	(855,026)	1,631,253
Total assets	51,978,543	49,304,714	12,205,834	11,466,213
Amounts due to banks	2,125,495	1,402,233	499,118	326,101
Amounts due to customers	39,787,802	38,334,345	9,343,149	8,914,964
Shareholders' equity	7,074,655	7,056,750	1,661,302	1,641,105
Share capital	522,638	522,638	122,728	121,544
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	54,15	54,01	12,71	12,56
Total capital adequacy ratio (in %)	17.2	16.8	17.2	16.8
Earnings per share (PLN/EUR)	3.67	4.89	0.85	1.15
Diluted net earnings per share (PLN/EUR)	3.67	4.89	0.85	1.15
Declared or paid dividends per share (PLN/EUR)*	-	3.74	-	0.87

** The Management Board has not concluded its analysis to be able to provide a recommendation regarding dividend from the appropriation of the 2019 profit. The presented ratios for 2018 are related to the dividend paid in 2019 from the appropriation of the 2018 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 2019 - PLN 4.2585 as at 31 December 2018: PLN 4.3000); 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 2019 – PLN 4.3018 (in 2018: PLN 4.2669).*

TRANSLATION

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

31 DECEMBER 2019

MARCH 2020

CONTENTS

Consolidated income statement

PLN'000 For the period	Note	2019	2018
Interest income	4	1,300,146	1,249,769
Similar income	4	106,333	54,745
Interest expense and similar charges	4	(252,752)	(196,940)
Net interest income	4	**1,153,727**	**1,107,574**
Fee and commission income	5	653,409	638,961
Fee and commission expense	5	(88,533)	(89,013)
Net fee and commission income	5	**564,876**	**549,948**
Dividend income	6	**11,080**	**9,533**
Net income on trading financial instruments and revaluation	7	**379,525**	**364,204**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	38	**97,969**	**112,631**
Net gain/(loss) on equity and other instruments measured at fair value through income statement		**17,392**	**6,522**
Net gain/(loss) on hedge accounting	8	**(3,493)**	**3,682**
Other operating income	9	24,460	35,243
Other operating expenses	9	(28,782)	(29,342)
Net other operating income and expense	9	**(4,322)**	**5,901**
General administrative expenses	10	**(1,128,269)**	**(1,108,247)**
Depreciation expense	11	**(86,499)**	**(71,384)**
Profit/loss on sale of other assets		**(354)**	**(813)**
Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments	12	**(245,718)**	**(63,511)**
Operating profit		**755,914**	**916,040**
Share in net profits/(losses) of entities valued at equity method*		**-**	**(22)**
Tax on some financial institutions		**(97,722)**	**(87,350)**
Profit before tax		**658,192**	**828,668**
Income tax expense	13	**(178,068)**	**(189,816)**
Net profit		**480,124**	**638,852**
Including:			
Net profit attributable to the Bank's shareholders		480,124	638,852
Weighted average number of ordinary shares (in pcs)	14	130,659,600	130,659,600
Net earnings per share (PLN)	14	3.67	4.89
Diluted net earnings per share (PLN)	14	3.67	4.89

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

Explanatory notes on pages 12-97 are an integral part of the annual consolidated financial statements.

Consolidated statement of comprehensive income

PLN'000	For the period Note	2019	2018
Net profit		**480,124**	**638,852**
Other comprehensive income, that might be subsequently reclassified to profit or loss:			
Change in value of financial assets measured at fair value through other comprehensive income	15	30,521	94,286
Currency translation differences		(47)	162
Other comprehensive income, that cannot be subsequently reclassified to profit or loss			
Net actuarial profits/(losses) on defined benefit program valuation	15	(4,026)	(2,842)
Other comprehensive income net of tax		**26,448**	**91,606**
Total comprehensive income		**506,572**	**730,458**
Including:			
Comprehensive income attributable to the Bank's shareholders		**506,572**	**730,458**

Explanatory notes on pages 12-97 are an integral part of the annual consolidated financial statements.

Consolidated statement of financial position

PLN'000	As at Note	31.12.2019	31.12.2018
ASSETS			
Cash and balances with the Central Bank	16	3,736,706	7,272,193
Amounts due from banks	17	1,165,684	1,333,977
Financial assets held-for-trading	18	5,446,511	2,237,076
Debt financial assets measured at fair value through other comprehensive income	19	15,484,578	14,241,363
Equity investments valued at equity method*	20	-	10,399
Equity and other instruments measured at fair value through income statement	21	62,638	48,768
Amounts due from customers	22	23,731,874	21,949,014
Tangible fixed assets	23	499,753	364,261
Intangible assets	24	1,443,139	1,418,794
Current income tax receivables		3,016	1,744
Deferred income tax asset	26	238,065	204,207
Other assets	27	166,579	222,918
Total assets		**51,978,543**	**49,304,714**
LIABILITIES			
Amounts due to banks	28	2,125,495	1,402,233,
Financial liabilities held-for-trading	18	1,877,898	1,609,382,
Hedging derivatives		19,226	-
Amounts due to customers	29	39,787,802	38,334,345
Provisions	30	65,199	29,984
Current income tax liabilities		41,725	66,297
Other liabilities	31	986,543	805,723
Total liabilities		**44,903,888**	**42,247,964**
EQUITY			
Share capital	33	522,638	522,638
Supplementary capital	33	3,003,290	3,003,290
Revaluation reserve	33	114,893	84,372
Other reserves	33	2,867,358	2,883,838
Retained earnings		566,476	562,612
Total equity		**7,074,655**	**7,056,750**
Total liabilities and equity		**51,978,543**	**49,304,714**

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

Explanatory notes on pages 12-97 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
Restated balance as at 1 January 2019	**522,638**	**3,003,290**	**84,372**	**2,883,838**	**562,612**	**-**	**7,056,750**
Total comprehensive income, including:	-	-	30,521	(4,073)	480,124	-	506,572
Net profit	-	-	-	-	480,124	-	480,124
Currency translation differences from the foreign operations' conversion	-	-	-	(47)	-	-	(47)
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	30,521	-	-	-	30,521
Net actuarial profits/(losses) on defined benefit program valuation							
Dividends	-	-	-	-	(488,667)	-	(488,667)
Transfer to capital	-	-	-	(12,407)	12,407	-	-
As at 31 December 2019	**522,638**	**3,003,290**	**114,893**	**2,867,358**	**566,476**	**-**	**7,074,655**

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

Explanatory notes on pages 12-97 are an integral part of the annual consolidated financial statements.

Consolidated cash flow statement

PLN'000	2019	2018
I. Net profit	**480,124**	**638,852**
II. Adjustments:	**(4,598,184)**	**5,963,842**
Current and deferred income tax recognized in income statement	178,068	189,816
Share in net profits/(losses) of entities valued at equity method	-	22
Depreciation expense	86,499	71,384
Net impairment due to financial assets value loss	210,563	72,966
Net provisions (recoveries)	36,795	(10,904)
Net interest income	(1,153,727)	(1,107,574)
Dividend income	(11,080)	(9,533)
Profit/loss on sale of fixed assets	354	823
Net unrealized exchange differences	(643)	(8,800)
Equity and other investment measured at fair value though the income statement	(17,366)	(6,522)
Other adjustments	7,243	3,004
Change in amounts due from banks	25,397	(348,629)
Change in amounts due from customers	(1,940,056)	(2,278,685)
Change in debt securities measured at fair value through other comprehensive income	(1,338,302)	3,199,537
Change in financial assets held-for-trading	(3,203,023)	(58,011)
Change in other assets	55,984	101,633
Change in amounts due to banks	725,029	(130,863)
Change in amounts due to customers	1,436,822	6,194,610
Change in liabilities held-for-trading	254,906	256,167
Change in amounts due to hedging derivatives	19,226	(50,191)
Change in other liabilities	29,127	(116,408)
Interest received	**1,501,305**	**1,439,811**
Interest paid	**(244,613)**	**(193,814)**
Income tax paid	**(243,505)**	**(208,116)**
III. Net cash flows from operating activities	**(3,104,873)**	**7,640,575**
B. Investing activities		
Inflows		
Disposal of tangible fixed assets	627	38
Disposal of capital shares	20,640	-
Disposal of fixed assets/liabilities held-for-sale	-	1,068
Received dividends	10,783	9,260
Other inflows connected with investing activities	-	-
Outflows		
Purchase of tangible fixed assets	(31,031)	(17,813)
Purchase of intangible assets	(70,005)	(109,313)
Purchase of capital shares	(41)	-
Net cash flows from investing activities	**(69,027)**	**(116,760)**
C. Financing activities		
Inflows		
Drawing of long-term loans from financial sector	-	-
Outflows		
Paid dividends	(488,667)	(537,011)
Repayment of long-term loans from financial sector	(1,673)	(35,936)
Outflows from lease payments	(13,930)	-
Net cash flows from financing activities	**(504,270)**	**(572,947)**
D. Exchange rates differences resulting from cash and cash equivalent calculation	**53**	**9,525**
E. Net increase/(decrease) in cash and cash equivalent	**(3,678,117)**	**6,960,393**
F. Cash and cash equivalent at the beginning of reporting period	**7,474,978**	**514,585**
G. Cash and cash equivalent at the end of reporting period (see note 45)	**3,796,861**	**7,474,978**

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

Explanatory notes on pages 12-97 are an integral part of the annual consolidated financial statements.

Additional information including the description of adopted accounting principles and other explanatory information

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

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 brokerage operations through its subsidiaries.

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").

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

The Group consists of the Bank and the following subsidiaries:

Subsidiaries	Registered office	% of share capital/votes at the General Meeting	
		31.12.2019	31.12.2018
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	97.47	97.47
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	-
Entities accounted for under the equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	-	100.00

Financial information on subsidiaries, 31.12.2019

Subsidiaries fully consolidated

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	21,929	525	21,404	266	(502)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100	421,716	322,910	98,805	44,659	1,256
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100	Entity in liquidation				
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100	4,903	54	4,824	376	(212)
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100	10,820	40	10,780	117	(33)

** 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	Warsaw	Leasing	Subsidiary	2.53	414	21,929	525	21,404	266	(502)

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 2020, which is the entity's balance sheet date.

Financial information on subsidiaries, 31.12.2018

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	22.154	248	21.906	294	(524)
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100	5,178	52	5,100	258	(12,517)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100	364.086	265.309	98.777	49.021	1,250
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100	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	672	10.856	43	10.813	129	(22)

** 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	Warsaw	Leasing	Subsidiary	2.53	414	22.154	248	21.906	294	(524)

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2019, which is the entity's balance sheet date.

2. Significant accounting policies

Declaration of conformity

The annual unconsolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("IFRS EU") 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 2018, item 395), respective operating regulations and regulations relating to issuers of securities admitted or sought to be admitted to trading on the official stock exchange quotation market.

The annual consolidated financial statements have been approved by the Management Board of the Bank for publication on 25 March 2020. 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

25 March 2020. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

Basis of preparation

These annual financial statements of the Group have been prepared as at 31 December 2019 and the comparable financial data are presented as at 31 December 2018.

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 through profit and loss including derivatives and capital investments (minority shareholdings) and financial assets measured at fair value through other comprehensive income. Other financial assets are presented at cost decreased by depreciation/ amortization and impairment losses. Other financial liabilities are presented at amortized cost.

The preparation of consolidated annual financial statement of the Group in accordance with IFRS requires from the Management to estimate and adopt assumptions that affect the amounts reported in financial statement. The most important accounting policies, estimations and assessments applied in the preparation of this annual financial statement, were applied by the Group in all the presented years on a continuous basis, except for changes resulting from the implementation since 1 January 2019 of IFRS 16 'Leases', which impact is provided in later part of report.

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

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

Significant estimates applied in the year ended 31 December 2019 related to:

- Provisions for expected credit losses for financial assets;
- Fair value of derivatives;
- Goodwill testing;
- Reserves;
- Employee benefits.

Significant accounting policies applied to prepare the financial statements are presented either in the notes to the financial statements or below:

Income statement	No of note with accounting policy description
Net interest income	4
Net fee and commission income	5
Dividend income	6
Net income on trading financial instruments and revaluation	2.1
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	2.1
Net gain/(loss) on equity and other instruments measured at fair value through income statement	2.1
Net gain/(loss) on hedge accounting	36
Provisions for expected credit losses on financial assets and provisions for off–balance sheet commitments	47

Statement of financial position	No of note with accounting policy description
Amounts due from banks	2.1
Financial assets held-for-trading	2.1
Debt financial assets measured at fair value through other comprehensive income	2.1
Equity investments valued at equity method	20
Equity and other instruments at fair value through the income statement	2.1
Amounts due from customers	2.1
Tangible fixed assets	23
Intangible assets	24
Deferred income tax asset	26
Amounts due to banks	2.1
Financial liabilities held-for-trading	2.1
Hedging derivatives	36

Amounts due to customers	2.1
Provisions	30
Other liabilities	31

Standards and interpretations approved but not obligatory as at 31 December 2019 that may have an impact on financial statements of the Group

- amendments in the conceptual framework implementing comprehensive financial reporting rules, including measurement and its grounds, presentation and disclosures, derecognition of assets and liabilities from the balance sheet and also updates and explanations of specific terms,
- IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' to clarify the definition of the term 'significant' and to align it with the definition used in the conceptual assumptions.
- IFRS 9, IAS 39 and IFRS 7 applicable to all hedging relationships directly affected by interest rate benchmark reform and uncertainties it gives rise to. Amendments introduce temporary exceptions from applying specific hedge accounting requirements that allow not to discontinue hedging relationships. Changes require entities to disclose additional information on hedging relationships that are affected by the above mentioned uncertainties.

The above mentioned changes are applicable from 1 January 2020 and will not impact the financial statements significantly.

Other standard amendments awaiting endorsement by the European Union

- IFRS 17 „Insurance" replacing IFRS 4 „Insurance contracts" and introducing comprehensive regulations for accounting of insurance contracts, in particular the measurement of relevant liabilities. Standard eliminates differences in accounting of insurance contracts depending on local jurisdictions, allowed by IFRS 4,
- IFRS 3 'Business combinations' amendment - introducing a clarification of the definition of a project that helps to distinguish between acquisitions as a group of assets or a project.

will not impact the financial statement significantly.

Standards applicable from 1 January 2019

- IFRS 16 'Leasing', endorsed by the European Union for application starting from 1 January 2019 r., will replace IAS 17.
  The new standard introduces amended comprehensive approach to lease contract identification and their recognition in financial statements of lessors and lessees. IFRS 16 introduces control model, which is a method of distinguishment of lease contracts from service agreements. The distinguishment focuses on assessment whether within the contract a specified asset controlled by customer can be identified.
  Standard introduces significant changes in lessee accounting - no longer will there be a separation of operating and finance lease. It is also necessary to recognize right of use asset and corresponding lease liability.
  Additional information about the impact of adoption is provided in later part of the note.
- IFRS 9 'Financial instruments' amendment. It clarifies situations in which prepayment of receivable results in repayment of significantly lower amount than outstanding one; in cases when it is reasonable, it does not impact SPPI test – the amendment won't have a significant impact on the financial statement,
- amendments to IAS 28 'Investments in associates and joint ventures' regarding measurement of the long-term share in affiliate companies and joined ventures in accordance with IFRS 9 'Financial instruments' - the amendment won't have a significant impact on the financial statement.
- IAS 19 'Employee Benefits' amendment stating that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. No significant impact on the financial statement.
- IFRIC 23 'Uncertainty relating to the recognition of income taxes' specifying measurement of uncertainties resulting from solutions applied for use of IAS 12 „Income taxes" when it is not clear if they are appropriate from perspective of tax authorities. The Group does not expect the Interpretation to have a significant impact on the financial statements as there are no significant uncertainties related to the recognition of income tax.
- standard amendments cycle 2015-2017 including: IFRS 3 'Business combinations' and IFRS 11 'Joint Arrangements' in respect of measurement of interest in case of taking control over joint arrangements, IAS 12 in respect of recognition of tax on dividends in profit and loss, IAS 23 'Borrowing costs' for borrowing costs treatment. No significant impact on the financial statement.

Basis of consolidation

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 values reported in annual consolidated financial statement are presented in PLN, which is functional currency and the currency of presentation of the Group.

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 2019	31 December 2018
1	USD	3.7977	3.7597
1	CHF	3.9213	3.8166
1	EUR	4.2585	4.3000

2.1 Financial assets and liabilities – classification and measurement

Classification

The Bank classifies financial instruments to the following categories:

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

Financial assets measured at fair value through profit and loss (Financial assets held for trading and Equity and other instruments at fair value through the income statement)

The category comprises:

1) financial assets, that were classified neither as measured at amortized cost nor as measured at fair value through other comprehensive income
2) financial assets classified at initial recognition as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an

‘accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases

3) minority shareholdings

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

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

Financial assets measured at amortized cost (Amounts due from banks and due from clients)

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

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Bank in accordance with Transition Resource Group for Impairment of Financial Instruments presented gross carrying amount of receivables in Stage 3 in the amount increased by accrued contract interest in the note 22 ‘Amounts due from customers’. The value of credit provisions is increased by the same amount.

Purchased or originated credit impaired assets (POCI)

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

Financial assets measured at fair value through other comprehensive income (Debt financial assets measured at fair value through other comprehensive income)

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

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Bank classifies in this category selected debt instruments.

Financial liabilities measured at fair value through profit and loss (Financial liabilities held for trading)

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

Financial liabilities measured at amortized cost (Amounts due to banks and due to clients)

Customers’ deposits are primarily classified in this category and commercial commitments and also liabilities from repo transactions, measured at amortized cost.

Recognition, derecognition and insignificant modifications

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

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

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

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

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

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

At the moment of derecognition, the undepreciated part of the commission is recognized in total in interest income. The newly charged commission is settled in time using the effective interest rate method.

If there is a change in cash flows of financial assets containing the repayment schedule measured at amortized cost that results from annex to the contract, the Bank recalculates gross balance sheet value of financial asset and recognizes modification profit or loss in profit and loss. The gross balance sheet value of that financial asset is calculated as present value of renegotiated or modified contract cash flows, discounted at original effective interest rate of financial assets (or credit risk adjusted effective interest rate for credit risk- for originated or purchased financial assets credit-impaired at initial recognition). All origination costs and fees adjust the balance sheet value of modified asset and are amortized until the maturity date of modified financial asset.

Derivative financial instruments 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 Bank measures financial assets:

- at fair value without deducting transactional costs which it may incur in connection with the sale or disposal of assets. This measurement relates to financial assets held for trading, debt financial assets measured at fair value through other comprehensive income and equity and other instruments at fair value through income statement),
- at amortized cost using effective interest method – for amounts due from banks and from clients. Amounts measured at amortized cost include provisions for expected credit losses.

Financial liabilities:

- financial liabilities held for trading are measured at fair value through the income statement,
- amounts due to banks and due to clients after initial recognition are measured at amortized cost using the effective interest rate method

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

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

The fair value of derivatives is established based on quotations in active markets, prices of transactions recently closed, and measurement techniques, including discounted cash flows models and option measurement models, depending on which method is appropriate for a given case. The derivatives that were not designated as hedging instruments according to hedge accounting principles are classified as trading assets or liabilities measured at fair value through profit or loss.

Embedded derivatives in host contracts that are liabilities are separated from the host and accounted for as derivatives, if their characteristics and risks are not closely related to the characteristics and risks of the host, and if the hybrid contract is not measured at fair value through profit or loss.

Impairment of financial assets

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

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

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

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

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

Objective evidence of impairment of a financial asset or a group of assets includes information obtained by the Bank concerning events, which are provided in the later part of the note 47 ‘Risk management’.

Non-recoverable loans (i.e., loans for which the Bank does not expect any future cash flows and that may be treated as tax deductible costs under separate tax regulations or that were unconditionally written off under an agreement with the customer) are, on the basis of Bank’s decision, written down against impairment allowances. If a written-down amount is subsequently recovered, the amount of income is presented in “Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments”.

Forbearance

Forborne exposures are exposures for which concessions were granted due to economic or legal reasons (for financial conditions), resulting from financial difficulties of Obligor, that the lender would not otherwise extend.
The Client’s restructuring and its exposure does not always imply a loss of value (e.g. in the case of obtaining appropriate compensations). Impaired exposures are restructured exposures with forced restructuring.

In case the 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 provisions for expected credit losses

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

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

Provisions for expected credit losses for individually significant assets

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

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

Impairment provisions for individually not significant assets

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

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

Credit risk in debt financial instruments at fair value through other comprehensive income

For financial assets measured at fair value through other comprehensive income, the increase or decrease in expected credit losses is recognized in the profit and loss account under the item 'Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments'.

In order to calculate the expected credit losses for assets measured at fair value through other comprehensive income, the Bank uses internal methodology to define default probability (PD parameter), loss value at default (LGD parameter) and exposure value at the time of default (EAD parameter).

2.2 IFRS 16 Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A right-of-use asset is amortized on linear basis until earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In the scope of impairment of assets due to the right of use, the Group applies IAS 36 Impairment.

The Group elected to apply the following practical expedients:

- the Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment),
- the Group applies an exemption for short-term leases for which the lease term ends within 12 months of the date of initial application,
- the Group elected not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component,
- the Group used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease,
- for operating lease contracts for which the underlying asset is of low value, the Group did not recognize any lease liabilities or related right-of-use assets. Lease payments on this account are recognized as expenses during the leasing period.

Initial application of IFRS 16

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

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

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

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

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

Reconciliation of Lease Liabilities

in PLN thousand	**Rights to perpetual usufruct**	**Real estate and other**	**Total**
Weighted-average Incremental Borrowing Rate	4.3%	1.4%	3,8%
Total non-cancellable operating lease rentals disclosed as at 31 December 2018 in accordance with IAS 37	**-**	**58,719**	**58,719**
Inclusion of Rights to perpetual usufruct and lease term change options	268,695	9,116	277,811
Total Undiscounted Lease Liability	**268,695**	**67,835**	**336,530**
Imputed Interest	186,507	4,059	190,566
Total Discounted Lease Liability as at 1 January 2019	**82,188**	**63,776**	**145,964**

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

The following rates were applied as at 1 January 2019:
- PLN: 1.6% - 4.3% depending on remaining lease term
- EUR: 0.02% - 2.2% depending on remaining lease term

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

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

2.3 Accounting estimates and judgments

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

Fair value of derivatives

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

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

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

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

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

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

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

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

Provisions for expected credit losses

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

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

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

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

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

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

Impairment of goodwill

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

Employee benefits

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

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 the 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 – the 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 offers, the Group offers cash loans, mortgage loans, credit cards, provides asset management services, and acts as an agent in the sale of investment and insurance products.

Income statement of the Group by business segment

For the period	2019			2018		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Net interest income	514,992	638,735	1,153,727	499,331	608,243	1,107,574
Internal interest income, including:	(71,563)	71,563	-	(43,366)	43,366	-

For the period	2019			2018		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Internal income	-	71,563	71,563	-	43,366	43,366
Internal expenses	(71,563)	-	(71,563)	(43,366)	-	(43,366)
Net fee and commission income	303,405	261,471	564,876	283,490	266,458	549,948
Dividend income	2,360	8,720	11,080	1,474	8,059	9,533
Net income on financial instruments and revaluation	351,856	27,669	379,525	335,714	28,490	364,204
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	97,969	-	97,969	112,631	-	112,631
Net gain/(loss) on equity and other instruments measured at fair value through income statement	16,467	925	17,392	6,522	-	6,522
Net gain/(loss) on hedge accounting	(3,493)	-	(3,493)	3,682	-	3,682
Net other operating income	9,915	(14,237)	(4,322)	9,199	(3,298)	5,901
General administrative expenses	(533,086)	(595,183)	(1,128,269)	(490,817)	(617,430)	(1,108,247)
Depreciation and amortization	(19,846)	(66,653)	(86,499)	(18,326)	(53,058)	(71,384)
Profit on sale of other assets	(113)	(241)	(354)	(829)	16	(813)
Net impairment loss on financial assets and provisions for off-balance sheet commitments	(168,266)	(77,452)	(245,718)	8,628	(72,139)	(63,511)
Operating income	**572,160**	**183,754**	**755,914**	**750,699**	**165,341**	**916,040**
Share in net profits/(losses) of entities valued at equity method	-	-	-	(22)	-	(22)
Tax on some financial institutions	**(73,155)**	**(24,567)**	**(97,722)**	**(64,339)**	**(23,011)**	**(87,350)**
Profit before tax	**499,005**	**159,187**	**658,192**	**686,338**	**142,330**	**828,668**
Income tax expense	-	-	(178,068)	-	-	(189,816)
Net profit	-	-	**480,124**	-	-	**638,852**

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

As at	31.12.2019			31.12.2018		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Total assets	**44,299,208**	**7,679,335**	**51,978,543**	**41,778,812**	**7,525,902**	**49,304,714**
Total liabilities and shareholders' equity, including:	**35,665,583**	**16,312,960**	**51,978,543**	**34,822,272**	**14,482,442**	**49,304,714**
Liabilities	30,254,827	14,649,061	44,903,888	29,342,859	12,905,105	42,247,964

4. Net interest income

Accounting policy:

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

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

The effective interest rate applies for the gross carrying amount of financial asset, except for or originated credit-impaired financial assets or impaired financial assets.

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

Interest income in respect of purchased or originated credit-impaired financial assets is determined by effective interest rate adjusted for credit risk.

Financial information:

PLN'000	For the period	2019	2018
Interest income from:		**1,300,146**	**1,249,769**
financial assets measured at amortized cost		**997,084**	**978,996**
Balances with Central Bank		7,334	6,559
Amounts due from banks		17,831	22,941
Amounts from customers, including:		971,919	949,496
financial sector entities		55,411	55,653
non-financial sector entities, including:		916,508	893,843
credit cards		281,531	286,435
Financial assets measured at fair value through comprehensive income		**303,062**	**270,773**
Debt investment financial assets measured at fair value through comprehensive income		303,062	270,773
Similar income from:		**106,333**	**54,745**
Debt securities held-for-trading		77,607	44,802
Liabilities with negative interest rate		13,644	9,943
Derivatives in hedge accounting		15,082	-
		1,406,479	**1,304,514**
Interest expense and similar charges for			
financial liabilities measured at amortized cost		**(236,208)**	**(191,070)**
Amounts due to banks		(64,131)	(43,021)
Amounts due to customers		(167,396)	(147,803)
Amounts due to financial sector entities		(49,503)	(59,482)
Amounts due to non-financial sector entities		(117,893)	(88,321)
Loans and advances acquired		(345)	(246)
Lease liabilities		(4,336)	-
Assets with negative interest rate		**(756)**	**(2,161)**
Derivatives in hedge accounting		**(15,788)**	**(3,709)**
		(252,752)	**(196,940)**
Net interest income		**1,153,727**	**1,107,574**

5. Net fee and commission income

Accounting policy:

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

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

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

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

For other commissions Bank performs:

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

If Bank transfers control of service over time and, therefore, satisfies a performance obligation and the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs, then fees are recognised over time in proportion to the completion of the service in fee income, In other cases the fees are recognised at a point in time when services have been completed and are presented in fee income. The above approach corresponds to the manner of meeting the obligations to provide services by the Bank in accordance with IFRS 15. There are no situations of withholding services which would affect the manner of revenue recognition described above in connection with meeting the obligation to provide services. The nature of services provided by the Bank is described in the Statutes, including situations in which the Bank acts as an intermediary. In the area of commission income, the remuneration received is in principle non-refundable.

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

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

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

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

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

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

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

Part of income corresponding to services rendered by the Bank after the sale of an 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 a cash loan are amortized over the life of the product as an effective interest rate component and are part of the interest income.

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

Financial information:

PLN'000	**For the period**	**2019**	**2018**
Fee and commission income			
Insurance and investment products distribution		67,456	82,085
Payment and credit cards		161,019	159,205
Payment services		111,213	106,995
Custody services*		94,805	85,086
Brokerage operations		36,206	42,665
Cash management services on customers' accounts		27,078	25,610
Guarantees granted		18,895	19,194
Financial liabilities granted		7,866	7,933
Other, including:		128,871	110,188
installment products in credit card		28,740	27,483
		653,409	**638,961**
Fee and commission expense			

PLN'000	For the period	2019	2018
Payment and credit cards		(32,896)	(36,685)
Brokerage operations		(12,553)	(12,865)
Fees paid to the National Depository for Securities (KDPW)		(20,820)	(18,928)
Broker's fees		(4,184)	(4,516)
Other		(18,080)	(16,019)
		(88,533)	**(89,013)**
Fee and commission income		**564,876**	**549,948**

The net fee and commission income for 2019 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 202,964 thousand (for 2018: PLN 194,200 thousand) and commission expenses in the amount of PLN 37,331 thousand (for 2018: PLN 40,911 thousand).

The "other" item in the fee and commission income contains a value that is the result of transactions carried out in the first half of 2019. Purchased on March 8, 2019, 100% shares in Bimmer Sp. z o.o. were sold to an external investor on May 30, 2019 for PLN 17.1 million. The subject of activity of Bimmer Sp. z o.o. is insurance brokerage, in particular providing insurance products services separated from the Bank, which the Bank has historically excluded from its offer. The transaction resulted in an increase in commission income in 2019 by PLN 13.1 million, while the remaining part will be recognized in the income statement in future periods.

6. Dividend income

Accounting policy:

Dividends equity investments are recognized in profit and loss when the entity's right to receive payment is established. There is a possibility that the entity will get economic benefits connected with dividend and the dividend will be set plausibly.

Financial information:

PLN'000	For the period	2019	2018
Equity and other instruments at fair value through the income statement		9,807	9,106
Securities held-for-trading		1,273	427
Total dividend income		**11,080**	**9,533**

7. Net income on trading financial instruments and revaluation

Accounting policy:

This item covers net income on trading financial instruments measured in fair value through profit or loss (as described in note 2.1 Financial assets and liabilities – classification and measurement) and net income on revaluation.

Financial information:

PLN'000	For the period	2019	2018
Net income on financial instruments measured at fair value through profit and loss from:			
Debt instruments		35,456	28,236
Equity instruments		(13,500)	(5,924)
Derivative instruments, including:		(65,045)	8,425
Interest rate derivatives		**(83,003)**	**(313)**
Equity		17,605	8,777
Commodities		353	(39)
		(43,089)	**30,737**
Net income on FX operations			
Operations on FX derivative instruments		470,297	498,691
FX gains and losses (revaluation)		(47,683)	(165,224)
		422,614	**333,467**

PLN'000	For the period	2019	2018
Net income on trading financial instruments and revaluation		**379,525**	**364,204**

The net income on trading financial instruments and revaluation for 2019 contains movement in (net) adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN 2,580 thousand (in 2018: minus PLN 11,051 thousand), presented as 'Net income on financial instruments at fair value through profit and loss from derivative instruments'.

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

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

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

8. Net gain/(loss) on hedge accounting

Accounting policy:

Detailed information on hedge accounting applied by the Bank, including the accounting policy, are presented in the note 36.

Financial information:

PLN'000	For the period	2019	2018
Fair value hedge accounting			
Net gain on hedged transaction valuation		334	14,526
Net gain on hedging transaction valuation		(3,827)	(10,844)
Hedge accounting income		**(3,493)**	**3,682**

9. Net other operating income and expense

Financial information:

Other operating income and expenses comprise income and expenses that are not directly related to banking activities. They include the 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.

in PLN thousand	For the period	2019	2018
Other operating income			
Income from provision of services for related parties outside the Group		6,626	7,092
Income from office rental		7,585	7,650
Other, including:		10,249	20,501
reimbursement of legal and enforcement costs		2,762	2,709
		24,460	**35,243**
Other operating expenses			
Amicable procedure and vindication expenses		(8,564)	(9,043)
Fixed assets held-for-sale maintenance cost		-	(87)
Net provision for litigation		(390)	(165)
Other, including:		(19,828)	(20,047)
donation		(3,856)	(4,075)
		(28,782)	**(29,342)**
Net other operating income		**(4,322)**	**5,901**

10. General administrative expenses

Accounting policy:

General administrative expenses are recognized in the period they apply to.

Financial information:

In building maintenance and rent cost position there are lease payments for short term lease and low value assets, variable lease payments, non-lease components and maintenance costs related to real estate owned or leased by the Group.

PLN'000	For the period	2019	2018
Staff expenses			
Remuneration costs, including:		(382,631)	(385,245)
Provisions for retirement allowances		(29,001)	(28,626)
Bonuses and rewards, including:		(73,319)	(81,241)
Payments related to own equity instruments		(4,751)	(8,700)
Rewards for long time employment		(30)	(38)
Social insurance costs		(64,598)	(63,014)
		(520,548)	**(529,500)**
Administrative expenses			
Telecommunication fees and hardware purchases		(195,449)	(187,339)
Costs of external services, including advisory, audit, consulting services		(50,159)	(55,169)
Building maintenance and rent costs		(53,366)	(64,208)
Advertising and marketing costs		(46,324)	(47,213)
Cash management service, KIR service and other transactional costs		(38,053)	(37,634)
Costs of external services related to the distribution of banking products		(44,779)	(40,402)
Postal services, office supplies and printmaking costs		(8,215)	(7,657)
Training and education costs		(1,451)	(1,409)
Banking and capital supervision costs		(5,902)	(4,316)
Bank Guarantee Funds costs		(102,292)	(61,720)
Other expenses		(61,731)	(71,680)
		(607,721)	**(578,747)**
Total general administrative expenses		**(1,128,269)**	**(1,108,247)**

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

PLN'000	For the period	2019	2018
Short-term employee benefits		13,348	13,158
Long-term employee benefits		2,796	2,784
Capital assets		2,760	4,550
		18,904	**20,492**

11. Depreciation expense

Accounting policy:

Depreciation expenses is recognized on a straight-line basis according to depreciation rates described in the note 23 for tangible fixed assets and note 24 for intangible assets.

Financial information:

PLN'000	For the period	2019	2018
Depreciation of property and equipment		(41,461)	(28,759)
Amortization of intangible assets		(45,038)	(42,625)
Depreciation expense, total		**(86,499)**	**(71,384)**

12. Provisions for expected credit losses on financial assets and provisions for off–balance sheet commitments

Accounting policy:

Provisions for expected credit losses and provisions for contingent commitments are presented in this position. Impairment policy is described in details in note 47 in Credit risk part.

Financial information:

PLN '000	For the period	2019	2018
Net impairment on amounts due from banks			
Provision creation		(3,244)	(5,664)
Provision reversals		4,664	4,355
		1,420	**(1,309)**
Net impairment on amounts due from customers			
Provision creation and reversals		**(216,110)**	**(75,099)**
Provision creation		(365 127)	(214 719)
Provision reversals		151 861	140 690
Other		(2 844)	(1 070)
Recoveries from sold debts		**4 293**	**2 373**
		(211 817)	**(72 726)**
Net impairment on debt investment financial assets measured at fair value through other comprehensive income		(166)	-
Provision reversals		-	1,069
		(166)	**1,069**
Net impairment on financial assets		**(210,563)**	**(72,966)**
Created provisions for granted financial and guarantee commitments		(68,808)	(33,810)
Release of provisions for granted financial and guarantee commitments		33,653	43,265
Net impairment on provisions for granted contingent commitments		**(35,155)**	**9,455**
Net impairment on financial assets and provisions for contingent commitments		**(245,718)**	**(63,511)**

13. Income tax expense

Accounting policy:

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

Financial information:

Recognized in the income statement

PLN'000	For the period	2019	2018
Current tax			
Current year		(215 824)	(207 258)
Adjustments for prior years		(392)	(1 120)
		(216 216)	**(208 378)**
Deferred tax			
Origination and reversal of temporary differences		38,148	18,562
		38,148	**18,562**

PLN'000	For the period	2019	2018
Total income tax expense in income statement		**(178 068)**	**(189 816)**

Reconciliation of effective tax rate

PLN'000	For the period	2019	2018
Profit before tax		658,192	828,668
Income tax at the domestic corporate tax rate of 19%		(125,056)	(157,447)
Impairment provision not constituting deductible expenses		(12,101)	(2,322)
Deductible income not recognized in the income statement		(3,536)	(1,294)
Deductible expenses not recognized in the income statement		(6)	(120)
Non-taxable income		2,311	1,828
Tax on some financial institutions		(18,567)	(16,597)
Bank Guarantee Fund		(19,436)	(11,727)
Other permanent differences, including other non-deductible expenses		(1,677)	(2,137)
Total tax expenses		**(178,068)**	**(189,816)**
Effective tax rate		**27.05%**	**22.91%**

The increase in effective tax rate is caused by the increase in the value of regulatory costs and the level of provision for receivables that are not tax deductible.

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2019 is related to financial assets measured at fair value through other comprehensive income and valuation of defined benefit plan and amounted to PLN 24 150 thousand (31 December 2018: PLN (18,227) thousand).

14. Earnings per share

As at 31 December 2019, earnings per share amounted to PLN 3.67 (31 December 2018: PLN 4.89).

The calculation of earnings per share as at 31 December 2019 was based on profit attributable to shareholders of PLN 480,124 thousand (31 December 2018: PLN 638,852 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2019 of 130,659,600 (31 December 2018: 130,659,600).

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

15. Changes in other comprehensive income

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

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2019	**94,399**	**(17,937)**	**76,462**
Change in valuation of financial assets measured at fair value through other comprehensive income	135,650	(25,773)	109,877
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(97,970)	18,614	(79,356)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**132,079**	**(25,096)**	**106,983**
Net actuarial profits/(losses) on defined benefit program valuation	(4,971)	945	(4,026)
As at 31 December 2019	**127,108**	**(24,151)**	**102,957**

PLN'000	Gross amount	Deferred income tax	Net amount

As at 1 January 2018	**(17,513)**	**3,327**	**(14,185)**
Change in valuation of financial assets measured at fair value through other comprehensive income	229,136	(43,619)	185,517
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(112,631)	21,400	(91,231)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**98,992**	**(18,892)**	**80,100**
Net actuarial profits/(losses) on defined benefit program valuation	(3,507)	665	(2,842)
As at 31 December 2018	**95,485**	**(18,227)**	**77,258**

16. Cash and balances with the Central Bank

PLN'000	**31.12.2019**	**31.12.2018**
Cash in hand	436,216	422,064
Current balances with Central Bank	3,300,490	3,850,088
Deposits	-	3,000,041
Cash and balances with the Central Bank, total	**3,736,706**	**7,272,193**

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 2019 to PLN 1,422,651 thousand (31 December 2018: PLN 1,271,148 thousand).

17. Amounts due from banks

Accounting policy:

Classification and measurement of Amounts due from banks are described in note 2.1 'Financial assets and liabilities – classification and measurement'.

Financial information:

PLN'000	**31.12.2019**	**31.12.2018**
Current accounts	60,469	203,311
Deposits	379,788	386,058
Loans and advances	3,428	28
Receivables due to purchased securities with a repurchase agreement	625,592	630,126
Deposits pledged as collateral of derivative instruments and stock market transactions	99,001	118,364
Total gross amount	**1,168,278**	**1,337,887**
Impairment provision	(2,594)	(3,910)
Total net amount due from banks	**1,165,684**	**1,333,977**

Changes of gross amounts due from banks that contributed to movements in provision for expected credit losses amounts is as follows:

PLN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2019	**(3,910)**	**-**	**-**	**(3,910)**
Transfer to Stage 1	**-**	-	-	-
Transfer to Stage 2	**-**	-	-	-
Transfer to Stage 3	**-**	-	-	-
(Creation) / Releases in the period though the income statement	1,420	-	-	1,420
Foreign exchange and other movements	(104)	-	-	(104)

PLN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross amounts due from banks as at 31 December 2019	**(2,594)**	**-**	**-**	**(2,594)**

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

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

PLN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2019	**1,337,884**	**2**	**-**	**1,337,887**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Purchased/paid receivables	(228,894)	-	-	(228,894)
Other movements	59,505	-	-	59,505
Gross amounts due from banks as at 31 December 2019	**1,168,276**	**3**	**0**	**1,168,278**

PLN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2018	**832,176**	**5,709**	**-**	**837,885**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Purchased/paid receivables	494,306	(5,700)	-	488,606
Derecognition	(9,118)	-	-	(9,118)
Other movements	20,520	(6)	-	20,514
Gross amounts due from banks as at 31 December 2018	**1,337,884**	**3**	**-**	**1,337,887**

18. Financial assets and liabilities held-for-trading

Accounting policy:

Classification and measurement of financial assets and liabilities held for trading are described in note 2.1 'Financial assets and liabilities – classification and measurement'.

Financial information:

Financial assets held-for-trading

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

PLN'000	31.12.2019	31.12.2018
Debt securities held-for-trading		
Bonds and notes issued by:		
Central Banks	999,917	-
Banks and other financial entities	7,125	12,944
Government	2,874,773	918,228
	3,881,815	**931,172**
Including:		
Listed on active market	2,881,898	931,172
Equity instruments held-for-trading	**39,916**	**23,227**
Including:		
Listed on active market	39,916	23,227
Derivative financial instruments	**1,524,780**	**1,282,677**
Financial assets held-for-trading, total	**5,446,511**	**2,237,076**

Financial liabilities held-for-trading

PLN'000	31.12.2019	31.12.2018
Liabilities related to short-sale of securities	248,406	351,323
Derivatives	1,629,492	1,258,059
Financial liabilities held-for-trading, total	**1,877,898**	**1,609,382**

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

Derivative financial instruments as at 31 December 2019

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**43,827,433**	**37,840,304**	**127,617,389**	**27,456,990**	**236,742,116**	**872,786**	**1,112,966**
FRA	34,030,000	15,240,000	14,753,000	-	64,023,000	2,558	3,815
Interest rate swaps (IRS)	9,797,433	22,600,304	110,965,539	27,415,264	170,778,540	870,228	1,109,106
Interest rate options	-	-	1,898,850	41,726	1,940,576	-	45
Currency instruments	**30,557,396**	**15,455,840**	**24,432,442**	**8,175,751**	**78,621,429**	**614,831**	**478,994**
FX forward	3,428,837	2,745,957	1,889,596	-	8,064,390	97,075	37,062
FX swap	20,442,422	5,466,035	3,838,179	-	29,746,636	242,510	306,517
Currency-interest rate swaps (CIRS)**	5,202,463	6,606,291	14,562,621	8,175,751	34,547,126	239,109	99,138
Foreign exchange options	1,483,674	637,557	4,142,046	-	6,263,277	36,137	36,277
Securities transactions	**164,724**	**14,097**	**-**	**-**	**178,821**	**293**	**618**
Futures*	38,581	14,097	**-**	**-**	**52,678**	**-**	**-**
Securities purchased / sold pending delivery	126,143	-	-	-	126,143	293	618
Commodity transactions	**55,783**	**237,429**	**141,962**	**-**	**435,174**	**36,870**	**36,914**

PLN'000	Nominal amount with remaining life of: less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	Total	Fair value: Assets	Liabilities
Swaps	55,783	237,429	141,962	-	435,174	36,870	36,914
Total derivative instruments	**74,605,336**	**53,547,670**	**152,191,793**	**35,632,741**	**315,977,540**	**1,524,780**	**1,629,492**

*Exchange-traded products

Cross-currency interest-rate swaps presented so far among interest rate instruments were transferred to the group of currency based instruments. The change is for presentation purposes only, it does not affect the values presented and applies only to this note. Comparative data for 2018 has been restated accordingly.

Derivative financial instruments as at 31 December 2018

PLN'000	Nominal amount with remaining life of: less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	Total	Fair value: Assets	Liabilities
Interest rate instruments	**45,235,963**	**51,859,256**	**105,616,028**	**27,776,966**	**230,488,213**	**1,024,561**	**1,116,297**
FRA	35,100,000	25,500,000	250,000	-	60,850,000	6,357	1,592
Interest rate swaps (IRS)	9,265,197	21,472,777	91,351,168	19,067,799	141,156,941	695,772	816,827
Currency-interest rate swaps (CIRS)	842,568	4,886,479	12,135,010	8,662,803	26,526,860	315,904	292,151
Interest rate options	-	-	1,879,850	46,364	1,926,214	5,806	5,727
Futures*	28,198	-	-	-	28,198	722	-
Currency instruments	**32,212,333**	**6,332,761**	**3,488,981**	**96,238**	**42,130,313**	**251,047**	**134,236**
FX forward	2,457,934	1,492,583	500,882	96,238	4,547,637	31,399	17,818
FX swap	28,261,956	3,934,789	2,885,819	-	35,082,564	210,549	107,304
Foreign exchange options	1,492,443	905,389	102,280	-	2,500,112	9,099	9,114
Securities transactions	**334,840**	**9,768**	**-**	**-**	**344,608**	**1,101**	**1,475**
Futures*	24,088	9,768	-	-	33,856	-	-
Securities purchased / sold pending delivery	310,752	-	-	-	310,752	1,101	1,475
Commodity transactions	**29,173**	**107,533**	**72,095**	**-**	**208,801**	**5,968**	**6,051**
Swaps	29,173	107,533	72,095	-	208,801	5,968	6,051
Total derivative instruments	**77,812,309**	**58,309,318**	**109,177,104**	**27,873,204**	**273,171,935**	**1,282,677**	**1,258,059**

*Exchange-traded products

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

Accounting policy:

Classification and measurement of debt investment financial assets measured at fair value through other comprehensive income are described in note 2.1 ‘Financial assets and liabilities – classification and measurement’.

Financial information:

PLN'000	31.12.2019	31.12.2018
Bonds and notes issued by:		
Other financial entities	697,117	224,074
Central governments, including:	14,787,461	14,017,289
bonds subject to fair value hedge accounting	1,833,308	-
Debt securities measured at fair value through other comprehensive income, total**	**15,484,578**	**14,241,363**
Including:		
Listed on active market instruments	15,484,578	14,241,363

For debt investment financial assets measured at fair value through other comprehensive income, the cumulated value of impairment as at 31 December 2019 amounts to PLN 4,689 thousand (as at 31 December 2018 4,524 thousand).

The movement in debt investment financial assets measured at fair value through other comprehensive income is as follows:

PLN'000	**2019**	**2018**
As at 1 January	**14,241,363**	**17,439,439**
Increases (due to):		
Purchases	50,264,752	44,485,571
Revaluation	22,399	100,274
Foreign exchange differences	-	65,153
Depreciation of discount, premium and interest	79,807	262,038
Decreases (due to):		
Sale	(48,902,634)	(47,960,505)
Foreign exchange differences	(21,221)	-
Depreciation of premium	(199,888)	(150,607)
As at 31 December	**15,484,578**	**14,241,363**

20. Equity investments valued using the equity method

Financial information:

PLN'000	**31.12.2019**	**31.12.2018**
Shares in subsidiaries	**-**	**10,399**
Including:		
Unlisted instruments	-	10,399

From 1 January 2019 Handlowy-Inwestycje Sp. z o.o. is fully consolidated. The movement in equity investments valued at equity method is as follows:

PLN'000	**2019**	**2018**
As at 1 January	**10,399**	**10,664**
Increases (due to):		
Revaluation	-	-
Decreases (due to):		
Revaluation	(10,399)	(265)
As at 31 December	**-**	**10,399**

21. Equity and other instruments measured at fair value through the income statement

Accounting policy:

Shares in entities other than dependent entities are classified as financial assets measured at fair value through income statement. Their classification and measurement are described in note 2.1 'Financial assets and liabilities – classification and measurement'.

Financial information:

PLN'000	**31.12.2019**	**31.12.2018**
Stocks and shares in other entities	21,314	20,248
Impairment	41,324	28,520
Equity and other instruments measured at fair value through income statement, total	**62,638**	**48,768**
Including:		
Listed on active market instruments	1,108	1,027
Unlisted on active market instruments	61,530	47,741

The movement in equity and other instruments measured at fair value through income statement is as follows:

PLN'000	2019	2018
As at 1 January	**48,768**	**26,500**
Reclassification /Impact of adopting IFRS 9	-	16,064
As at 1 January 2018	**48,768**	**42,564**
Increases (due to):		
Revaluation	14,470	6,204
Decreases (due to):		
Sale	(600)	-
As at 31 December	**62,638**	**48,768**

22. Amounts due from customers

Accounting policy:

Classification and measurement of amounts due from customers are described in note 2.1 'Financial assets and liabilities – classification and measurement'.

Financial information:

PLN'000	31.12.2019	31.12.2018
Amounts due from financial sector entities		
Loans, placements and advances	641,317	401,223
Debt financial assets unlisted	1,765,711	1,156,233
Receivables due to purchased securities with a repurchase agreement	30,217	182,613
Guarantee funds and deposits pledged as collateral	647,489	362,807
Other receivables	68,068	45,330
Total gross amount	**3,152,802**	**2,148,206**
Provision for expected credit losses	(2,216)	(1,391)
Total net amount	**3,150,586**	**2,146,815**
Amounts due from non-financial sector entities		
Loans and advances	19,176,989	18,047,445
Unlisted debt financial assets	305,928	568,024
Purchased receivables	1,751,320	1,830,937
Realized guarantees	24,941	481
Other receivables	10,442	20,481
Total gross amount	**21,269,620**	**20,467,368**
Provision for expected credit losses	(688,332)	(665,169)
Total net amount	**20,581,288**	**19,802,199**
Total net amounts due from customers	**23,731,874**	**21,949,014**

The gross value of receivables as at 31 December 2019 does not include contractual interest of 311,351 thousand PLN (at the end of 2018: 411,529 thousand PLN) accrued from the time the exposure is classified in Stage 3. This presentation had no influence on total net value of receivables in Stage 3, because increase in the value of receivables in Stage 3 by this amount, in accordance with Transition Resource Group for Impairment of Financial Instruments would also result in the growth of loan provisions by the same amount.

PLN '000	31.12.2019	31.12.2018
Gross total value including contract interest in Stage 3	24,733,773	23,027,103
Impairment provision including contract interest in Stage 3	(1,001,899)	(1,078,089)
Net total value	**23,731,874**	**21,949,014**

In amounts due from customers presented on the line Unlisted debt financial assets are securitization assets covered by the Bank. Until now the Bank has acted as investor and acquired the senior tranches in three transactions. The assets purchased by the Bank are not traded on the market. The Bank intends to maintain investments until the maturity date.

The main risk of securitisation transactions is credit risk. Bank's maximum exposure to loss from involvement in these entities is equal to their carrying gross value, as at 31 December 2019 in the of amount PLN 1,765,711 thousand (31 December 2018: PLN 1,156,233 thousand). The carrying value of assets relating in Bank participation in unconsolidated structured entities as at 31 December 2018 in the amount of PLN 1,765,016 thousand (31 December 2018: PLN 1,155,554 thousand).

Movement in provision for expected credit losses - amounts due from customers presents as follows:

PLN '000 **Provision for expected credit losses - amounts due from customers**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Provision for expected credit losses as at 1 January 2019	**(56,110)**	**(74,776)**	**(535,674)**	**(666,560)**
Transfer to Stage 1	(14,461)	14,050	411	-
Transfer to Stage 2	7,241	(7,991)	750	-
Transfer to Stage 3	1,735	26,164	(27,899)	-
(Creation)/Releases in the period though the income statement	10,209	(37,459)	(186,780)	(214,030)
Net changes due to modification derecognition	-	-	(2,080)	(2,080)
Decrease in provision due to provision	-	-	66,901	66,901
Decrease in provision in connection with the sale of receivables	-	-	124,839	124,839
Foreign exchange and other movements	(2)	60	324	382
Provision for expected credit losses as at 31 December 2019	**(51,388)**	**(79,952)**	**(559,208)**	**(690,548)**

As at 31 December 2019, the Group did not identify POCI assets (purchased or originated credit-impaired assets).

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

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

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

PLN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross amounts due from customers measured at amortized cost				
Gross amounts due from customers as at 1 January 2019	**20,246,975**	**1,642,110**	**726,489**	**22,615,574**
Transfer to Stage 1	391,316	(390,363)	(953)	-
Transfer to Stage 2	(1,370,217)	1,371,454	(1,237)	-
Transfer to Stage 3	(124,927)	(251,136)	376,063	-
Purchased/paid receivables	2,340,988	(60,927)	(45,606)	2,234,455
Recognized receivables	-	-	(66,813)	(66,813)
Disposed receivables	-	-	(153,886)	(153,886)
Other movements	(259,015)	44,405	7,703	(206,907)

PLN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross amounts due from customers as at 31 December 2019	**21,225,120**	**2,355,543**	**841,760**	**24,422,422**

PLN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross amounts due from customers measured at amortized cost				
Gross amounts due from customers as at 1 January 2018	**17,978,350**	**1,715,751**	**742,715**	**20,436,816**
Transfer to Stage 1	361,300	(358,736)	(2,564)	-
Transfer to Stage 2	(495,485)	497,527	(2,042)	-
Transfer to Stage 3	(76,263)	(69,223)	145,486	-
Purchased/paid receivables	2,378,466	(149,595)	(51,815)	2,177,056
Recognized receivables	-	-	(57,158)	(57,158)
Disposed receivables	-	-	(42,375)	(42,375)
Other movements	100,607	6,386	(5,758)	101,235
Gross amounts due from customers as at 31 December 2018	**20,246,975**	**1,642,110**	**726,489**	**22,615,574**

The gross value of amounts due from customers does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including such interest on the gross carrying amount is presented above.

For amounts due from customers which changed Stages during the period, transfers are presented as the change between the Stage as of 1 January 2019 or at the moment of initial recognition and as of 31 December 2019.

23. Tangible fixed assets

Accounting policy:

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

Subsequent expenditure relating to an item of property and equipment 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 2019.

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%-34.0%
Computers	25.0%
Office equipment	20.0%
Other tangible fixed assets	7.0%-34.0%
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 provision.

Tangible fixed and 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 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.

The carrying amounts 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).

The recoverable amount in the 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 is discounted to their present value using the discount rate before taxation, which represents present market expectations regarding money value and specific risk regarding an asset. For assets that are not generating independent cash flows, the recoverable amount is estimated for the cash-generating unit, the asset owner.

Revaluation provision for impairment are reversed if the estimations for the recoverable amount have changed.

The revaluation write-off for impairment 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.

Tangible fixed assets from the date of initial application of IFRS 16 include the assets of the right of use of the assets. Details are presented in note 42.

Financial information:

Movements of tangible fixed assets in 2019

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 31 December 2018	**586,735**	**96**	**24,652**	**236,743**	**50,327**	**898,553**
Impact of adopting IFRS 16	**93,380**	**-**	**-**	**-**	**-**	**93,380**
As at 1 January 2019	**680,115**	**96**	**24,652**	**236,743**	**50,327**	**991,933**
Increases:						
Purchases	(4)	-	3,162	6,439	**21,434**	31,031
Other increases	9,198	-	-	79	**-**	9,277
Decreases:						
Disposals	-	-	(1,295)	-	**-**	(1,295)
Liquidation	(6,911)	-	-	(36,185)	**-**	(43,096)
Other decreases	-	(94)	(110)	(278)	**(7,658)**	(8,140)
Transfers	32,723	-	-	15,745	**(48,471)**	(3)
As at 31 December 2019	**715,121**	**2**	**26,409**	**222,543**	**15,632**	**979,707**
Depreciation						
As at 31 December 2018	**312,009**	**96**	**2,876**	**219,311**	**-**	**534,292**
Impact of adopting IFRS 16	**(52,584)**	**-**	**-**	**-**	**-**	**(52,584)**
As at 1 January 2019	**259,425**	**96**	**2,876**	**219,311**	**-**	**481,708**
Increases:						
Amortization charge for the period	28,329	-	3,195	9,937	-	41,461
Other increases	-	-	-	72	-	72
Decreases:						
Disposals	-	-	(314)	-	-	(314)
Liquidation	(6,430)	-	-	(36,257)	-	(42,687)
Other decreases	-	(94)	(69)	(123)	-	(286)
As at 31 December 2019	**281,324**	**2**	**5,688**	**192,940**	**-**	**479,954**
Carrying amount						
As at 31 December 2018	**274 726**	-	21,776	17,432	50,327	364,261
Impact of adopting IFRS 16	**145 964**	-	-	-	-	145,964

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
As at 1 January 2019	420 690	-	21,776	17,432	50,327	510,225
As at 31 December 2019	**433,797**	**-**	**20,721**	**29,603**	**15,632**	**499,753**

Movements of tangible fixed assets in 2018

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2018	**572,186**	**96**	**11,401**	**257,439**	**70,640**	**911,762**
Increases:						
Purchases	-	-	13,334	1,367	3,112	17,813
Other increases	-	-	-	254	-	254
Decreases:						
Disposals	-	-	(83)	(1,805)	-	(1,888)
Liquidation	(7,037)	-	-	(21,572)	-	(28,609)
Other decreases	(3)	-	-	(80)	(696)	(779)
Transfers	21,589	-	-	1,140	(22,729)	-
As at 31 December 2018	**586,735**	**96**	**24,652**	**236,743**	**50,327**	**898,553**
Depreciation						
As at 1 January 2018	**302,140**	**96**	**827**	**231,924**	**-**	**534,987**
Increases:						
Amortization change for the period	16,212	-	2,079	10,468	-	28,759
Other increases	-	-	-	253	-	253
Decreases:						
Disposals	-	-	(30)	(1,805)	-	(1,835)
Liquidation	(6,343)	-	-	(21,445)	-	(27,788)
Other decreases	-	-	-	(84)	-	(84)
As at 31 December 2018	**312,009**	**96**	**2,876**	**219,311**	**-**	**534,292**
Carrying amount						
As at 1 January 2018	270,046	-	10,574	25,515	70,640	376,775
As at 31 December 2018	**274,726**	**-**	**21,776**	**17,432**	**50,327**	**364,261**

24. Intangible assets

Accounting policy:

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

Subsequent expenditure relating to an item of 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 2019.

Illustrative annual depreciation and amortization rates applied by the Group are presented in the table below:	
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%

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.

Intangible assets 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 intangible assets is the higher of its fair value less costs of sale and value in use.

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).

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

Revaluation provision for impairment, excluding goodwill, are reversed if the estimations for the 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.

Tangible fixed assets since the day of initial application of IFRS 16 include right of use assets. Details are presented in note 42.

Financial information:

Movements of intangible assets in 2019

PLN'000	**Goodwill**	**Patents, licenses etc.**	**Software**	**Other intangible assets**	**Prepayments**	**Total**
Gross amount						
As at 1 January 2019	**1,245,976**	**2,318**	**474,053**	**-**	**64,365**	**1,786,712**
Increases:	-	-	-	-	-	-
Purchases	-	229	616	-	69,160	70,005
Decreases:	-	-	-	-	-	-
Liquidation	-	-	-	-	-	-
Other decreases	-	-	-	-	(622)	(622)
Transfers	-	-	68,569	-	(68,569)	-
As at 31 December 2019	**1,245,976**	**2,547**	**543,238**	**-**	**64,334**	**1,856,095**
Depreciation						
As at 1 January 2019	**-**	**1,648**	366,270	-	**-**	367,918
Increases:						
Amortization charge for the period	-	148	44,890	-	-	45,038
Decreases:						
Liquidation	-	-	-	-	-	-
As at 31 December 2019	**-**	**1,796**	**411,160**	**-**	**-**	**412,956**
Carrying amount						
As at 1 January 2018	1,245,976	670	107,783	-	64,365	1,418,794
As at 31 December 2019	**1,245,976**	**751**	**132,078**	**-**	**64,334**	**1,443,139**

In 2019 Group analyzed intangible assets in respect of their utilization and as a result Group no longer expects inflow of economic benefits from patents, licenses and other intangible assets, so they were written down.

Movements of intangible assets in 2018

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2018	**1,245,976**	**2,576**	**445,867**	**18,519**	**19,826**	**1,732,764**
Increases:						
Purchases	-	477	1,580	-	107,256	109,313
Decreases:						
Liquidation	-	-	(35,804)	-	-	(35,804)
Other decreases	-	-	-	-	(307)	(307)
Provision	-	(735)	-	(18,519)		(19,254)
Transfers	-	-	62,410	-	(62,410)	-
As at 31 December 2018	**1,245,976**	**3,053**	**474,053**	**-**	**64,365**	**1,786,712**
Depreciation						
As at 1 January 2018	**-**	**2,302**	**359,530**	**18,519**	**-**	**380,351**
Increases:						
Amortization charge for the period	-	263	42,362	-	-	42,625
Decreases:						
Liquidation	-	-	(35,804)	-	-	(35,804)
Provision	-	(735)	-	(18,519)	-	(19,254)
As at 31 December 2018	**-**	**2,565**	**366,088**	**-**	**-**	**367,918**
Carrying amount						
As at 1 January 2018	1,245,976	274	86,337	-	19,826	1,352,413
As at 31 December 2018	**1,245,976**	**488**	**107,965**	**-**	**64,365**	**1,418,794**

In 2018, the Group analyzed intangible assets in terms of their use and in connection with the fact that they do not expect the impact of economic benefits in the future, made a listing of other intangible assets and concessions, patents, licenses and similar values.

As at 31 December 2019, 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.

25. Impairment test for 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 not 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.

For the purpose of carrying out impairment tests, goodwill has been allocated to two cash generating-units: the Institutional Bank and Consumer Bank. Assignment was made on the basis of discounted cash flows models on the basis of the strategy before the merge. After fusion, reallocation of goodwill was conducted on the basis of the assets' relative values transferred to another center comparing to the assets held in the 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	31.12.2019	31.12.2018
Corporate Bank	851,206	851,944
Consumer Bank	394,770	394,032

	1,245,976	**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 Group. The plan is periodically updated and approved by the Bank's Supervisory Board. The board accepted a 3 year time period for the process of financial planning.

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 2019, the discount rate amounted to 8.80% (8.80% at the end of 2018).

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 2019.

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.

26. Deferred income tax asset and liabilities

Accounting policy:

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.

Financial information:

PLN'000	**31.12.2019**	**31.12.2018**
Deferred income tax asset	710,452	546,233
Deferred income tax liability	472,387	342,026
Deferred income tax net asset	**238,065**	**204,207**

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

Deferred tax asset is attributable to the following:

PLN'000	**31.12.2019**	**31.12.2018**
Interest accrued and other expense	8,045	10,755
Revaluation impairment provision	80,537	81,383
Unrealized premium from securities	94,818	81,285
Negative valuation of derivative financial instruments	407,396	286,037
Negative valuation of securities held-for-trading	3,753	280
Income collected in advance	31,617	30,700
Valuation of shares	-	-
Commissions	3,092	5,877
Debt and equity securities measured at fair value through other comprehensive income	-	-
Staff expenses and other costs due to pay	46,966	45,883
Leasing IFRS16	29,736	-
Other	4,492	4,033
Deferred tax asset	**710,452**	**546,233**

Deferred tax liability is attributable to the following:

PLN'000	**31.12.2019**	**31.12.2018**
Interest accrued (income)	53,054	40,067

PLN'000	31.12.2019	31.12.2018
Positive valuation of derivative financial instruments	329,533	246,146
Unrealized securities discount	1,052	2,312
Income to receive	4,882	2,748
Positive valuation of securities held-for-trading	180	722
Debt and equity securities measured at fair value through other comprehensive income	26,164	26,464
Investment relief	9,517	10,453
Valuations of shares	7,941	6,661
Leasing IFRS16	29,481	-
Other	10,583	6,453
Deferred tax liability	**472,387**	**342,026**
Net deferred income tax asset	**238,065**	**204,207**

Movement in temporary differences during the year 2019

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 1 January 2019	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2019
Interest accrued and other expense	10,755	(2,709)	-	8,046
Revaluation impairment provision	81,383	(845)	-	80,538
Unrealized premium from securities	81,285	13,533	-	94,818
Negative valuation of derivative financial instruments	286,037	121,358	-	407,395
Negative valuation of securities held-for-trading	280	3,472	-	3,752
Income collected in advance	30,700	917	-	31,617
Valuation of shares	-	-	-	-
Commissions	5,877	(2,785)	-	3,092
Debt and equity securities measured at fair value through other comprehensive income	-	-	-	-
Staff expenses and other costs due to pay	45,883	1,079	4	46,966
Leasing IFRS16	-	29,736	-	29,736
Other	4,033	459	-	4,492
	546,233	**164,215**	**4**	**710,452**

The movement in temporary differences relating to deferred tax provision:

PLN'000	As at 1 January 2019	Change in consolidation method	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2019
Interest accrued (income)	40,067	-	12,987	-	53,054
Positive valuation of derivative financial instruments	246,146	-	83,387	-	329,533
Unrealized securities discount	2,312	-	(1,260)	-	1,052
Income to receive	2,748	-	2,134	-	4,882
Positive valuation of securities held-for-trading	722	-	(542)	-	180
Debt and equity securities measured at fair value through other comprehensive income	26,464	-	(5,580)	5,280	26,164
Investment relief	10,453	-	(936)	-	9,517
Valuations of shares	6,661	(1,926)	3,206	-	7,941
Leasing IFRS16	-	-	29,481	-	29,481
Other	6,453	-	3,190	940	10,583
	342,026	**(1,926)**	**126,067**	**6,220**	**472,387**
Change in net deferred income tax assets	**204,207**	**1,926**	**38,148**	**(6,216)**	**238,065**

Movement in temporary differences during the year 2018

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 31 December 2017	Impact of adopting IFRS 9	As at 1 January 2018	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2018
Interest accrued and other expense	10,059	-	10,059	696	-	10,755
Revaluation impairment provision	48,321	33,037	81,358	25	-	81,383
Unrealized premium from securities	58,436	-	58,436	22,849	-	81,285
Negative valuation of derivative financial instruments	164,999	-	164,999	121,038	-	286,037
Negative valuation of securities held-for-trading	688	-	688	(408)	-	280
Income collected in advance	29,480	-	29,480	1,220	-	30,700
Valuation of shares	779	(3,052)	(2,273)	(2,462)	-	(4,735)
Commissions	6,137	-	6,137	(260)	-	5,877
Debt and equity securities measured at fair value through other comprehensive income	2,138	-	2,138	812	(3,924)	(974)
Staff expenses and other costs due to pay	45,663	-	45,663	(445)	665	45,883
Other	4,701	-	4,701	(668)	-	4,033
	371,401	**29,985**	**401,386**	**142,397**	**(3,259)**	**540,524**

The movement in temporary differences relating to deferred tax provision:

PLN'000	As at 31 December 2017	Impact of adopting IFRS 9	As at 1 January 2018	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2018
Interest accrued (income)	37,828	(1,310)	36,518	3,549	-	40,067
Positive valuation of derivative financial instruments	115,419	-	115,419	130,727	-	246,146
Unrealized securities discount	7,097	-	7,097	(4,785)	-	2,312
Income to receive	3,243	-	3,243	(495)	-	2,748
Positive valuation of securities held-for-trading	568	-	568	154	-	722
Debt and equity securities measured at fair value through other comprehensive income	10,833	-	10,833	(3,348)	18,005	25,490
Investment relief	11,401	-	11,401	(948)	-	10,453
Valuations of shares	1,930	-	1,930	(4)	-	1,926
Other	7,178	-	7,178	(1,015)	290	6,453
	195,497	**(1,310)**	**194,187**	**123,835**	**18,295**	**336,317**
Change in net deferred income tax assets	**175,904**	**31,295**	**207,199**	**18,562**	**(21,554)**	**204,207**

27. Other assets

PLN'000	31.12.2019	31.12.2018
Interbank settlements	2,997	2,981
Settlements related to securities trade	55	-
Settlements related to brokerage activity	18,607	34,217
Income to receive	53,850	53,170
Staff loans out of the Social Fund	16,306	17,427
Sundry debtors	68,218	106,198
Prepayments	6,546	8,925
Other assets, total	**166,579**	**222,918**
Including financial assets*	106,183	160,823

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

28. Amounts due to banks

Accounting policy:

Classification and measurement of amounts due to banks are described in note 2.1 'Financial assets and liabilities – classification and measurement'.

Financial information:

PLN'000	31.12.2019	31.12.2018
Current accounts	1,457,233	912,995
Term deposits	156,425	162,737
Loans and advances received	-	1,326
Liabilities due to sold securities under repurchase agreements	214,135	115,208
Other liabilities	297,702	209,967
margin deposits	297,669	208,901
Total amounts due to banks	**2,125,495**	**1,402,233**

Movements in loans received:

in PLN thousand	2019	2018
As at the beginning of the period	**1,326**	**36,467**
Increase (due to):		
drawing of loans	-	-
interest on loans	345	246
FX differences	1	549
Decrease (due to):		
repayment of loans	(1,669)	(35,866)
interest repayment	(3)	(70)
FX differences	-	-
As at the end of the period	**-**	**1,326**

29. Amounts due to customers

Accounting policy:

Classification and measurement of amounts due to customers are described in note 2.1 'Financial assets and liabilities – classification and measurement'.

Financial information:

PLN'000	31.12.2019	31.12.2018
Deposits from financial sector entities		
Current accounts	797,540	704,512
Term deposits	3,759,106	6,335,488
	4,556,646	**7,040,000**
Deposits from non-financial sector entities		
Current accounts, including:	27,714,669	24,987,518
institutional customers	13,990,381	11,930,693
individual customers	10,335,509	9,380,065
public sector units	3,388,779	3,676,760
Term deposits, including:	7,248,176	6,069,930
institutional customers	4,055,101	3,476,957
individual customers	3,126,422	2,523,267
public sector units	66,653	69,706
	34,962,845	**31,057,448**
Total deposits	**39,519,491**	**38,097,448**

Other liabilities

PLN'000	31.12.2019	31.12.2018
Liabilities due to sold securities under repurchase agreements	-	-
Other liabilities, including:	268,311	236,897
liabilities due to deposits	159,986	121,416
margin deposits	43,929	66,583
Total other liabilities	**268,311**	**236,897**
Total amounts due to customers	**39,787,802**	**38,334,345**

30. Provisions

Accounting policy:

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 also 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.

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.

Financial information:

PLN'000	31.12.2019	31.12.2018
Litigation	3,214	3,221
Granted financial and guarantee liabilities*	61,703	26,481
Workforce restructuring	-	-
Restructuring of the branch network	282	282
Provisions, total	**65,199**	**29,984**

The movement in provisions is as follows:

PLN'000	2019	2018
As at 1 January	**29,984**	**18,300**
Provisions for:		
Litigation	3,221	3,154
Granted financial and guarantee commitments	26,481	12,789
Workforce restructuring	-	429
Restructuring of the branch network	282	1,928
Impact of adopting IFRS 9	-	22,886
Granted financial and guarantee commitments	-	22,886
Increases:		
Charges to provisions in the period:	72,373	34,169
litigation	2,314	359
granted financial and guarantee commitments	68,808	33,810
Workforce restructuring	1,251	-
Other, including	67	261
Granted financial and guarantee commitments	67	261
Decreases:		
Release of provisions in the period	(35,577)	(45,073)
litigation	(1,924)	(194)
granted financial and guarantee commitments	(33,653)	(43,265)
employment restructuring	-	(429)
restructuring of the branch network	-	(1,185)
Provisions used in the period, including:	(1,648)	(559)
litigation	(397)	(98)

PLN'000	**2019**	**2018**
restructuring of the branch network	(1,251)	(461)
As at 31 December	**65,199**	**29,984**

**Additional information about provisions for litigation and granted financial and guarantee commitments are in Note 39.*

31. Other liabilities

Accounting policy:

The Bank records accruals and prepayments of expenses primarily in relation to the Bank's overhead expenses in reporting periods to which they relate. Accruals and prepayments are presented as 'Other liabilities' in the statement of financial position.

Within the range of liabilities to provision of providing services on time, the Bank uses a method of income on the time proportion in the time of providing services. According to the bank, this method reflects the procedure of providing services.

Within the area of methods, input data and assumptions adopted to estimate variable remuneration, the Bank uses approach most likely values in accordance to the remuneration received for achievement of the objectives, whereas within the range of remuneration reimbursements in insurance mediation, statistical methods are used, and provision is presented as accrual. The Bank addresses all issues setting the level of income subject to identified variables (remuneration under specified objectives, expected reimbursements, all discounts).

For the remuneration for mediation in distribution of insurance products, in particular with the insurance connected with Bank's credit product, the model of relative fair value is used. According to this model, using the fair value of the credit product and the sell services of the insurance product, the Bank divides into remuneration being part of interest income and remuneration for provided services connected with the distribution and operation of these products.

Lease liabilities are measured in accordance with note 2.2.

Provisions due to employee benefits, including provision for retirement payments being defined benefit plan, are described in note 46.

Financial information:

PLN'000	**31.12.2019**	**31.12.2018**
Staff benefits	34,452	35,459
Interbank settlements	189,986	120,783
Inter-branch settlements	914	1,197
Settlements related to securities trading	20	284
Settlements related to brokerage activity	71,765	61,885
Settlements with Tax Office and National Insurance (ZUS)	23,934	26,328
Liabilities due to leasing assets	143,270	-
Sundry creditors	225,194	295,702
Accruals:	275,146	242,908
Provision for employee payments	85,292	83,930
Provision for employee retirement	68,325	58,340
IT services and bank operations support	55,784	36,145
Consultancy services and business support	7,359	5,774
Other**	58,386	58,719
Deferred income	21,862	21,177
Other liabilities, total	**986,543**	**805,723**
Including financial liabilities*	940,747	758,218

** Financial liabilities include all the positions "Other liabilities", except the positions "Settlements with Tax Office and National Insurance (ZUS)" and "Deferred income".*
*** The item includes a provision for potential commission returns under the bancassurance model.*

32. Financial assets and liabilities by contractual maturity

As at 31 December 2019

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)	**17**	**1 168 278**	**756 263**	**278**	**176 459**	**235 278**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	18	3 881 815	1 000 136	-	91 534	2 623 958	166 187
Financial assets measured at fair value through other comprehensive income							
Debt financial asstes measured at fair value through other comprehensive income	19	15 484 578	-	-	1 289 153	11 422 752	2 772 673
Amounts due from customers (gross)							
Amounts due from financial sector entities	22	3 152 802	866 157	-	141 645	2 145 000	-
Amounts due from non-financial sector entities	22	21 269 620	7 344 510	1 314 465	2 564 481	8 123 589	1 922 575
Amounts due to banks	**28**	**2 125 495**	**2 108 386**	**2 000**	**15 007**	**45**	**57**
Amounts due to customers							
Amounts due to financial sector entities	29	4 597 741	4 595 732	310	1 676	-	23
Amounts due to non-financial sector entities	29	35 190 061	32 633 125	1 233 492	1 289 776	33 615	53

As at 31 December 2018

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)	**17**	**1,337,887**	**812,646**	**-**	**296,245**	**228,996**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	18	931,172	32,546	-	17,948	648,758	231,920
Financial assets measured at fair value through other comprehensive income							
Debt financial asstes measured at fair value through other comprehensive income	19	14,241,363	121,044	-	-	11,499,980	2,620,339
Amounts due from customers (gross)							
Amounts due from financial sector entities	22	2,148,206	498,115	-	1,550,091	100,000	-
Amounts due from non-financial sector entities	22	20,467,368	7,704,493	1,492,378	2,510,333	6,886,074	1,874,090
Amounts due to banks	**28**	**1,402,233**	**1,384,456**	**2,683**	**15,000**	**43**	**51**
Amounts due to customers							
Amounts due to financial sector entities	29	7,103,501	7,100,962	446	2,072	-	21
Amounts due to non-financial sector entities	29	31,230,844	29,720,688	1,054,054	434,847	21,202	53

33. 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**			

The par value of 1 share amounts to PLN 4.00

As at 31 December 2019, the Parent entity'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 2018.

The Parent entity has not issued preferred shares.

Both in 2019 and 2018, there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2019 and 31 December 2018, held at least 5% of the total number of votes at the General Meeting or at least 5% of the Parent entity'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 2019 and during the period from the publication of the previous interim quarterly report for Q3 2019 until the day of the publication of this annual consolidated financial statements for 2019, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2019, supplementary capital was PLN 3,003,290 thousand (31 December 2018: PLN 3,003,290 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 the 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	31.12.2019	31.12.2018
Revaluation of financial assets measured at fair value through other comprehensive income	114,893	84,372

The revaluation reserve is not distributed. As at the day of derecognition of all or part of the financial assets measured at fair value through other comprehensive income 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	31.12.2019	31.12.2018
Reserve capital	2,334,622	2,347,028
General risk reserve	540,200	540,200
Net actuarial losses on defined benefit program valuation	(11,937)	(7,910)
Foreign currency translation adjustment	4,473	4,520
Other reserves, total	**2,867,358**	**2,883,838**

On 5 June 2019 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2018, deciding to appropriate the amount of PLN 1,172 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 are recognized as liabilities on the date at which the General Meeting of the Bank has approved the appropriation of earnings.

Dividends paid for 2018

At the meeting on June 5, 2019, 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 2018. The WZ resolved to appropriate the amount of PLN 488,666,904.00 to the dividend payment, which means that the dividend per one ordinary share is PLN 3.74. The number of shares covered by the dividend is 130,659,600.

Declared dividends

The Management Board has not concluded its analysis to be able to provide a recommendation regarding dividend from the appropriation of the 2019 profit.

34. Repurchase and reverse repurchase agreements

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 the case of sale of the securities previously purchased in the reverse repo transaction, the Group recognizes liabilities due to the short sale of securities. These liabilities are evaluated fair value.

Repurchase agreements

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 2019, 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	212,648	214,135	up to a week	214,151

**including interest*

As at 31 December 2018, 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	113,972	115,208	up to a week	115,224

**including interest*

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

As at 31 December 2019 and as at 31 December 2018, assets sold through repo cannot be further traded.

In 2019, the total interest expense on repurchase agreements was PLN 7,514 thousand (in 2018: PLN 8,592 thousand).

Reverse repurchase agreements

Reverse repurchase agreements are entered into as a facility to provide funding to customers.

As at 31 December 2019, 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	214,129	211,731		214,140
	175,495	216,490		176,458
	233,712	238,356		235,278
Amounts due from other financial sector entities	30,217	30,198		30,219
	653,553	**696,775**		**656,095**

**including interest*

As at 31 December 2018, 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	115,203	114,155	Up to 1 week	115,214
	284,064	338,962	Up to 1 yaer	286,245
	227,282	238,833	Up to 3 years	228,996
Amounts due from other financial sector entities	182,613	183,090	Up to 1 week	182,627
	809,162	**875,040**		**813,082**

As at 31 December 2019 and 31 December 2018, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2019, the total interest income on reverse repurchase agreements was PLN 8,695 thousand (in 2018: PLN 9,908 thousand).

As at 31 December 2019 the liabilities due to short sale of securities purchased in reverse repo transactions amounted to PLN 248,406 thousand (as at 31 December 2018: PLN 351,323 thousand).

35. Offsetting of financial assets and financial liabilities

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.

The Group does not offset financial assets and liabilities. Therefore, in line with requirements of IFRS 7, disclosures provided below relate only to financial assets and liabilities resulting from derivative contracts, settled by a central counterparty (CCP) - KDPW_CCP S.A. or concluded under master agreements such as ISDA, the 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 the net amount of receivables and liabilities, where such offsetting has been recognized as legal effective.

The table below presents the fair values of derivatives (from the trading portfolio and designated as hedging instruments) as well as executable collateral for timed transactions and derivative framework deals enabling lawful compensation in described situations.

PLN'000	31.12.2019		31.12.2018	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	2,311,662	2,435,599	1,846,788	1,822,170
The effect of offsetting	(786,882)	(786,882)	(564,111)	(564,111)
Valuation of derivatives (net) presented in the statement of financial position	1,524,780	1,648,717	1,282,677	1,258,059
Value of collateral received/placed	(302,195)	(479,391)	(198,711)	(240,288)
Assets and liabilities subject to offsetting under the master agreement	**1,222,585**	**1,169,326**	**1,083,966**	**1,017,771**
Maximum amount of potential offset	(1,043,761)	(1,043,761)	(975,365)	(975,365)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**178,824**	**125,565**	**108,601**	**42,406**

36. Hedge accounting

The Group hedges against the risk of change in the fair value of fixed interest rate debt securities available for sale. The hedged risk results from changes in interest rates.

The Group used the option of IFRS 9 to continue the hedge accounting standard in accordance with IAS 39 instead of regulations pointed in IFRS 9.

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 the 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 is recognized in net interest income.

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

As at 31 December 2019 the Group had active hedging relationship originated in 2019. Details are presented below.

PLN '000	Notional value	Balance value		Listing in the statement of financial position	Change in fair value used to take hold of hedgne ineffectiveness
		Assets	Liabilities		
Hedge accounting of fair value					
Interest rate risk					
IRS Transactions	1,688,000	-	19,226	Hedging derivatives	(3,828)

Details of the hedged items are presented in the table below.

PLN '000	Balance value		Cumulative amount of hedging fair value in balance value of heged item corrections	Listing in the statement of financial position	Change in fair value used to take hold of hedgne ineffectiveness
	Assets	Liabilities			
Hedge accounting of fair value					
Interest rate risk					
Treasury bonds	1,833,308	-	-	Debt investement securities measured at fair value through other comprehensive income	334

Cumulated amounts of adjustments related to fair value hedge included in the statement of financial position for all hedged items, with respect to which stopped accounting through result on fair value hedge, amounted to PLN 23,949 thousand as at 31 December 2019 (31 December 2018: PLN 39,399 thousand).

Information regarding hedge effectiveness is presented below.

	Hedge ineffectiveness recognized in income statement	Listing in the statement of financial position
Hedge accounting of fair value		
Interest rate risk	(3,494)	Hedge accounting result

37. 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 2019

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value*	Fair value disclosure**
Financial assets								
Cash and balances with Central Bank	16	-	3,736,706	-	-	3,736,706	-	3,736,706
Amounts due from banks measured at amortized cost	17	-	1,165,684	-	-	1,165,684	-	1,165,682
Financial assets held-for-trading measured at fair value	18	5,446,511	-	-	-	5,446,511	5,446,511	-
Debt investment financial assets measured at fair value through other comprehensive income	19	-	-	15,484,578	-	15,484,578	15,484,578	-
Equity and other instruments measured at fair value through income statement	21	-	-	-	62,638	62,638	62,638	-
Amounts due from customers measured at amortized cost	22	-	23,731,874	-	-	23,731,874	-	23,661,886
		5,446,511	**28,634,264**	**15,484,578**	**62,638**	**49,627,991**	**20,993,727**	**28,564,274**
Financial liabilities								
Amounts due to banks	28	-	-	-	2,125,495	2,125,495	-	2,125,592
Financial liabilities held-for-trading	18	1,877,898	-	-	-	1,877,898	1,877,898	-
Amounts due to customers	29	-	-	-	39,787,802	39,787,802	-	39,781,867
		1,877,898	**-**	**-**	**41,913,297**	**43,791,195**	**1,877,898**	**41,907,459**

* Fair value of assets and liabilities that are recognized and measured in the statement of financial position at fair value.
** Fair value of assets and liabilities that are not recognized and measured in the statement of financial position at fair value, but for which fair value is additionally disclosed in accordance with the requirements of IFRS 7.

As at 31 December 2018

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value*	Fair value disclosure**
Financial assets								
Cash and balances with Central Bank	16	-	7,272,193	-	-	7,272,193	-	7,272,193
Amounts due from banks measured at amortized cost	17	-	1,333,977	-	-	1,333,977	-	1,333,896
Financial assets held-for-trading measured at fair value	18	2,237,076	-	-	-	2,237,076	2,237,076	-
Debt investment financial assets measured at fair value through other comprehensive income	19	-	-	14,241,363	-	14,241,363	14,241,363	-
Equity and other instruments measured at fair value through income statement	21	-	-	48,768	-	48,768	48,768	-
Amounts due from customers measured at amortized cost	22	-	21,949,014		-	21,949,014	-	21,897,248
		2,237,076	**30,555,184**	**14,290,131**	**-**	**47,082,391**	**16,527,207**	**30,503,337**
Financial liabilities								
Amounts due to banks	28	-	-	-	1,402,233	1,402,233	-	1,402,326

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value*	Fair value disclosure**
Financial liabilities held-for-trading	18	1,609,382	-	-	-	1,609,382	1,609,382	-
Amounts due to customers	29	-	-	-	38,334,345	38,334,345	-	38,332,779
		1,609,382	**-**	**-**	**39,736,578**	**41,345,960**	**1,609,382**	**39,735,105**

* Fair value of assets and liabilities that are recognized and measured in the statement of financial position at fair value.
** Fair value of assets and liabilities that are not recognized and measured in the statement of financial position at fair value, but for which fair value is additionally disclosed in accordance with the requirements of IFRS 7.

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 systems as pricing services, such as Reuters and Bloomberg, which represent the actual market transactions concluded on market conditions. Level I mainly includes 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 2018, 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 2019

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	18	2,921,813	2,524,698	-	5,446,511
derivatives		-	1,524,780	-	1,524,780
debt securities		2,881,897	999,918	-	3,881,815
equity instruments		39,916	-	-	39,916
Debt investment financial assets measured at fair value through other comprehensive income	20	15,484,578	-	-	15,484,578
Equity and other instruments measured at fair value through income statement	21	1,108	-	61,530	62,638
Financial liabilities					
Financial liabilities held-for-trading	18	248,406	1,629,492	-	1,877,898
short sale of securities		248,406	-	-	248,406
derivatives		-	1,629,492	-	1,629,492
Hedging derivatives		-	19,226	-	19,226

As at 31 December 2018

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	18	955,120	1,281,956	-	2,237,076

PLN'000	Note	Level I	Level II	Level III	Total
derivatives		722	1,281,955	-	1,282,677
debt securities		931,171	1	-	931,172
equity instruments		23,227	-	-	23,227
Debt investment financial assets measured at fair value through other comprehensive income	19	14,241,363	-	-	14,241,363
Equity and other instruments measured at fair value through income statement	21	1,027	-	47,741	48,768
Financial liabilities					
Financial liabilities held-for-trading	19	351,323	1,258,059	-	1,609,382
short sale of securities		351,323	-	-	351,323
derivatives		-	1,258,059	-	1,258,059

On the 31st of December 2019 the amount of financial assets classified to the Level III includes the share of PLN 41,324 thousand in Visa Inc. and the share of PLN 20,206 thousand in other minority shareholding (as at December 31, 2018, PLN 28,520 thousand and PLN 19,221 thousand, respectively).

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

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

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

	01.01.-31.12.2019
PLN '000	Equity and other investments measured at fair value through income statement
As at 1 January 2019	**47,741**
Sales	(600)
Revaluation	14,389
As at the end of period	**61,530**

	01.01.-31.12.2018
PLN '000	Equity and other investments measured at fair value through income statement
As at 31 December 2017	**23,062**
Reclassification/ Impact of adopting IFRS 9	18,186
As at 1 January 2018	**41,248**
Revaluation	6,493
As at the end of period	**47,741**

In 2019 and 2018, the Group did not make any transfers between levels of financial instruments fair value according to the methods establish 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.

Amounts due from customers and banks

The 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. 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.

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

Amounts due to banks and customers

In the 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.

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.

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

38. Derecognition of financial assets

In accordance with the amendments to IAS 1 'Presentation of financial statement', which result from adopting IFRS 9, the Bank is obligated to disclose net gain/(loss) on derecognition of financial assets. That amount in Bank comes down to gain on debt investment financial assets measured at fair value through other comprehensive income and amounted to PLN 97,969 thousand (PLN 112,631 thousand in 2018).

That gain resulted from sale of debt investment financial assets measured at fair value through other comprehensive income, according to description in note 2, section "Recognition, derecognition and insignificant modifications". In the separate income statement such gain is presented in item net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income (before IFRS 9 application in item Net gain on debt investment securities available-for-sale").

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

39. Contingent liabilities and litigation proceedings

Information on pending proceedings

In 2019, there was no single proceeding regarding the Bank's receivables or liabilities, the value of which would be significant, pending in court, before a public administration authority or an arbitration authority.

- In January 2019, the Bank became aware of the filing of lawsuits by two previous agents, Rigall Arteria Management spółka z ograniczoną odpowiedzialnością sp. k. with registered office in Warsaw and Rotsa Sales Direct Sp. z o.o. with registered office in Katowice. The lawsuits concerned claims related to agency agreements which in the past merged agents with the Bank.

  On 27 May 2019 the Bank received a statement of claim submitted by Rigall Arteria Management spółka z ograniczoną odpowiedzialnością sp. k. for the payment of PLN 386,139,180.89 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 50,017,463.89 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014.The Court has referred the matter to mediation proceedings, which have not resulted in a mutual agreement, so the Bank filed a response to the statement of claim on 20 February 2020.

  On 10 February 2020 the Bank received a statement of claim submitted by Rotsa Sales Direct sp. z o.o. for the payment of PLN 419,712.468.48 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 33,047,245.20 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014. The deadline to respond to the statement of claim is 11 May 2020.

  In the Bank's opinion, the amount of claims filed by the companies is not justified. The Bank's position is confirmed by legally binding resolutions of legal actions taken by the companies against the Bank, which are beneficial for the Bank.

- As at 31 December 2019, the Bank was among others a party to 19 court proceedings associated directly with derivative transactions that have not been legally terminated**:** in 12 proceedings the Bank acted as a defendant and in 7 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank.
- The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressees of the President of UOKiK's decision in the case. The proceedings have concerned alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was the subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set in the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. As the Bank submitted extraordinary appeal on the 25 October 2017 the Supreme Court has overturned the Appeal Court's verdict and the case has been returned to the Appeal Court for a second review. The appeals proceedings has begun again. In the first quarter of 2018, the Bank received the reimbursed of the fine which was recognized in the profit and loss. In 2019 the case did not developed.
- The Group is carefully following the changes of the legal environment arising out of the courts' case law regarding mortgage loans indexed to foreign currencies, including the judgment of the Court of Justice of the European Union (CJEU), case no. C 260/18, of 3 October 2019. The Group has identified a number of doubts as regards interpretation of the above-mentioned judgment. As at the day of these financial statements, these doubts prevent a reliable and rational assessment of the influence of the judgment on proceedings pending before national courts and necessitate a thorough analysis of the relevant case law. Given the marginal share of mortgage loans indexed to CHF in the entire loan portfolio, the Group finds that any court rulings on these loans that are unfavorable to the Bank should not significantly affect the Group's financial situation.

  On September 11, 2019, CJEU passed a ruling in the case C 383/18, indicating the following interpretation of Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers (Directive): "the right of the consumer to a reduction in the total cost of the credit in the event of early repayment of the credit includes all the costs imposed on the consumer." Hence, according to the provisions of the Directive, the above-mentioned right of the consumer includes costs both related and not related to the duration of the contract. In performance of the banking activities falling under the definition of a consumer credit, the Bank charged commissions which were structurally not related to the duration of the contract, and thus not subject to reduction in the event of early repayment of a consumer credit. CJEU ruled on the interpretation of the provision of the Directive which is not directly binding upon domestic law entities and requires implementation into the national law, whose potential amendment, interpretation and application will be of significant importance in assessing customers' claims for the reimbursement of a part of commissions in the event of early repayment of a consumer credit.

  In its practice, the Bank has taken into account the influence of the judgment on the interpretation of the national law, whereby the total cost of credit specified for consumer credit agreements concluded after the date of delivery of the judgment, will be accordingly reduced.

  The Group is monitoring the risk of claims for the return of a part of commission. The Group, based on internal and external legal analysis, previous court rulings in the this case and the number of court cases received by the Group, did not create provisions for potential commission returns for customers who repaid consumer loans early as of 2019.

  As of December 30, 2019, the Group is sued in 15 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 124 thousand and in 14 cases concerning a credit indexed to CHF for the total amount of PLN 1 914 thousand (most of the cases are in the first instance).

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

In the case of legal proceedings involving the risk of cash outflow as a result of meeting the Bank's commitments, the appropriate provisions are created. The value of provisions for disputes as at 31 December 2019 is PLN 3,214 thousand. PLN (3,221 thousand PLN as at December 31, 2018).

In 2019, there were no significant settlements on account of court cases which ended with a final judgment.

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	State as at	
	31.12.2019	**31.12.2018**
Contingent liabilities and guarantees granted		
Letters of credit	182,326	137,669
Guarantees granted	2,273,926	2,589,013
Credit lines granted	12,935,767	14,023,057
Underwriting other issuers' securities issues	49,935	47,587
	15,441,954	**16,797,326**

PLN '000	**31.12.2019**	**31.12.2018**
Letters of credit		
Import letters of credit issued	174,555	137,669
Export letters of credit confirmed	7,771	-
	182,326	**137,669**

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

The provisions for expected credit losses for contingent liabilities and guarantees granted by the Group are established. As at 31 December, 2019 the amount of provisions of granted contingent liabilities and guarantees was PLN 61,703 thousand (31 December 2018: PLN 26,481 thousand).

Movement in provision for expected credit losses - contingent liabilities and guarantees granted presents as follows:

PLN '000 **Provision for expected credit losses - contingent liabilities and guarantees granted**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Provision for expected credit losses as at 1 January 2019	**14,083**	**10,318**	**2,080**	**26,481**
Transfer to Stage 1	2,645	(2,645)	-	-
Transfer to Stage 2	(900)	900	-	-
Transfer to Stage 3	(358)	(3,869)	4,227	-
(Creation)/Releases in the period though the income statement	(3,737)	9,048	29,844	35,155
Foreign exchange and other movements	86	16	(35)	67
Provision for expected credit losses as at 31 December 2019	**11,819**	**13,768**	**36,116**	**61,703**

PLN '000 **Provision for expected credit losses - contingent liabilities and guarantees granted**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Provision for expected credit losses as at 31 December 2017	**-**	**-**	**-**	**12,789**
Impact of adopting IFRS 9	-	-	-	22,886
Provision for expected credit losses as at 1 January 2018	**19,061**	**10,837**	**5,777**	**35,675**
Transfer to Stage 1	149	(149)	-	-
Transfer to Stage 2	(278)	278	-	-
Transfer to Stage 3	-	-	-	-
(Creation)/Releases in the period though the income statement	(5,086)	(676)	(3,693)	(9,455)
Foreign exchange and other movements	237	28	(4)	261
Provision for expected credit losses as at 31 December 2018	**14,083**	**10,318**	**2,080**	**26,481**

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

Movements in contingent liabilities granted that contribute to movements in provision for expected credit losses to presents as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amount of contingent liabilities granted				
Gross amount of contingent liabilities granted as at 1 January 2019	**15,259,354**	**1,505,583**	**32,389**	**16,797,326**
Transfer to Stage 1	56,114	(56,101)	(13)	-
Transfer to Stage 2	(485,353)	485,448	(95)	-
Transfer to Stage 3	(12)	(62,337)	62,349	-
Increase/Decrease	(1,365,079)	78,985	(25,167)	(1,311,261)
Other movements	45,049	(88,580)	(583)	(44,113)
Gross amount of contingent liabilities granted as at 31 December 2019	**13,510,074**	**1,862,998**	**68,881**	**15,441,952**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amount of contingent liabilities granted				
Gross amount of contingent liabilities granted as at 1 January 2018	**15,283,408**	**1,495,682**	**37,392**	**16,816,482**
Transfer to Stage 1	28,287	(28,287)	-	-
Transfer to Stage 2	(548,835)	548,835	-	-
Transfer to Stage 3	-	(156,025)	156,025	-
Increase/Decrease	408,281	(343,928)	(161,049)	(96,696)
Other movements	88,212	(10,694)	22	77,540
Gross amount of contingent liabilities granted as at 31 December 2018	**15,259,354**	**1,505,582**	**32,390**	**16,797,326**

PLN'000	31.12.2019	31.12.2018
Financial and guarantees liabilities received		
Finance		-
Guarantees	20,106,687	19,278,757
	20,106,687	**19,278,757**

40. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2019	31.12.2018
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	214,135	115,208
credit received	-	1,668
	214,135	**116,876**

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

PLN'000	31.12.2019	31.12.2018
Assets pledged		
Debt securities held-for-trading	212,648	88,806
Debt investment financial assets measured at fair value through other comprehensive income	165,084	170,908
Financial assets measured at amortized cost (reverse repo)	-	25,166
Amounts due from banks		

PLN'000	**31.12.2019**	**31.12.2018**
Settlements related to operations in derivative instruments and stock market trading	99,001	118,364
Amounts due from customers		
Stock market trading guarantee funds and settlements	647,490	362,807
	1,124,223	**766,051**

As at 31 December 2019, the debt securities measured at fair value through other comprehensive income presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund in the amount of PLN 165,084 thousand (31 December 2018: PLN 168,106 thousand, the collateral against loan received in the amount of PLN 2,802 thousand)

Debt securities held-for-trading as at 31 December 2019 constitute collateral of the Bank's obligations under securities sold with a repurchase agreement.

Financial assets measured at amortized cost constitute collateral of the Bank's obligations under securities sold with a repurchase agreement.

For more details on assets covering the Bank's obligations under repo transactions, see Note 34.

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

41. 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 2019, the Bank maintained over 14.5 thousand securities accounts (31 December 2018: approx. 14.3 thousand accounts).

42. Leases

Leases where the Group is the lessee

The Group leases office space and has the right of perpetual usufruct of land:

in PLN thousand	**Rights to perpetual usufruct**	**Real estate and other**	**Total**
ROU - Opening	82,188	63,776	145,964
ROU - Added	-	9,198	9,198
ROU - Amortization	1,104	12,131	13,235
ROU - Closing	**81,084**	**60,843**	**141,926**
Liability Balance as at reporting date	**82,028**	**61,241**	**143,270**

		2019	
in PLN thousand	**Rights to perpetual usufruct**	**Real estate and other**	**Total**
Lease Cost	4,539	13,032	17,571
- Depreciation of right-of-use Assets	1,104	12,131	13,235
- Interest on Lease Liabilities	3,435	901	4,336
Reporting Exceptions Cost Short-term Leases	-	591	591
Reporting Exceptions Cost Low-value Leases	-	2,216	2,216
Variable Lease Cost	-	6,749	6,749
Total Lease Cost	**4,539**	**22,587**	**27,127**

In the profit and loss account, the depreciation of the right to use assets is included in the depreciation tangible fixed and intangible assets, interest costs on lease liabilities - in interest costs, and the costs of short-term contracts, leasing low-value assets and leasing variables - in general administrative expenses.

	2019		
in PLN thousand	Rights to perpetual usufruct	Real estate and other	Total
Cash Flows - Total	3,595	3,001	6,596
Cash Flows - Interest	3,435	901	4,336
Cash Flows - Principle Repayment	160	2,100	2,260
Right-of-use Assets Obtained In Exchange For New Finance Liabilities	-	9,198	9,198
Weighted-average Remaining Lease Term (in years)	73.70	7.00	61.40
Weighted-average Incremental Borrowing Rate	4.3%	1.5%	3.8%
Total lease costs	3,595	3,001	6,596

In the statement of cash flows, interest flows are recognized in cash flows from operating activities, while the equity component is included in cash flows from financing activities.

Analysis of maturity dates of leasing liabilities

	2019		
in PLN thousand	Rights to perpetual usufruct	Real estate and other	Total
2019	-	8,068	8,068
2020	3,595	9,700	13,294
2021	3,595	9,523	13,118
2022	3,595	8,557	12,152
2023	3,595	7,867	11,462
2024	3,595	6,576	10,171
Thereafter	247,125	14,549	261,675

Bank as lessor

Irrevocable lease payments

in PLN thousand	31.12.2019	31.12.2018
Under 1 year	-	41
1 – 5 years	5,437	6,976
Above 5 years	-	-
	5,437	**7,017**
Total annual amounts for agreements for undefined term	**6,207**	**5,780**

43. Additional information to the statement of cash flows

Cash is cash in hand, nostro current account in Central Bank and receivables on current balances in banks.

PLN'000	31.12.2019	31.12.2018
Cash related items:		
Cash in hand	436,216	422,064
Nostro current account in Central Bank	3,300,490	6,850,088
Current accounts in other banks (nostro, overdrafts on loro accounts)	60,155	202,826
	3,796,861	**7,474,978**

44. Transactions with the key management personnel

PLN'000	31.12.2019		31.12.2018	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**127**	**65**	**165**	**-**
Deposits				
Current accounts	10,776	30,731	8,969	2,307
Term deposits	10,563	6,411	7,695	380
	21,339	**37,142**	**16,664**	**2,687**

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

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

Within the scope of the work relationship, among contracts of employment between the Bank and Members of the Management Board, only in one case of one Member of Management Board the contract includes a provision on financial compensation in the 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, period of 12 months (in the 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 compensation to the member of the Management Board.

Staff expenses for current and former members of the Management Board are presented in Note 10.

45. Related parties

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

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	31.12.2019	31.12.2018
Receivables, including:	**18,863**	**172,180**
Placements	-	-
Liabilities, including:	**1,427,631**	**780,029**
Deposits*	384,825	218,934
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	-	-
Assets of derivative hedging instruments	500,799	449,183
Liabilities held-for-trading	285,043	379,293
Liabilities due to hedging derivatives	-	-
Contingent liabilities granted	**429,279**	**439,748**
Contingent liabilities received	**62,529**	**34,834**
Contingent transactions in derivative instruments (nominal value), including:	**110,361,177**	**57,380,600**

PLN'000	**31.12.2019**	**31.12.2018**
Interest rate instruments	34,658,882	28,293,455
Interest rate swaps (IRS)	4,980,928	6,740,216
Currency – interest rate swaps (CIRS)	28,707,666	20,561,934
Interest rate options	970,288	963,107
Futures contracts	-	28,198
Currency instruments	20,395,332	28,881,240
FX forward/spot	1,706,373	605,006
FX swap	15,457,340	26,994,552
Foreign exchange options	3,231,619	1,281,682
Securities transactions	17,581	101,504
Securities purchased pending delivery	10,872	48,266
Securities sold pending delivery	6,709	53,238
Commodity transactions	217,587	104,401
Swaps	217,587	104,401
Options	-	-

**including deposits from parent company in the amount of PLN 12 thousand (31 December 2018: PLN 9 thousand)*

PLN'000	**2019**	**2018**
Interest and commission income*	32,136	35,734
Interest and commission expense*	52,855	30,061
General administrative expenses	173,046	169,775
Other operating income	6,626	7,092

** including interest and commission income in amount of PLN 1,139 thousand (2018: PLN 1,505 thousand) and interest and commission expense in amount of PLN 2 thousand (2018: PLN 2 thousand) refer to the parent company*

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 with related entities as at 31 December 2019 amounted to PLN 215,756 thousand (as at 31 December 2018: PLN 69,890 thousand). The Bank runs a compression of derivative transaction portfolios' periodically. It is one of the risk-mitigation techniques recommended by "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 Regulations 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 2019 and 2018 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.

In 2019 the capitalization of investments regarding functionality modification of retail banking IT systems took place. Total payments for Citigroup Inc. entities amounted to PLN 55,708 thousand (in 2018: PLN 32,912 thousand).

46. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, awards, bonuses, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits).

  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. 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;

- 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 the provision resulting from a change of actuarial assumptions (economics and demographic) taken to valuation is shown in other total income.

- Employee Pension Plan

The Group conducts for its employees the Employee Pension Plan (“PPE”, “Plan”), registered by the Supervisory Authority under number ZM RPPE 178/02/12/19. 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 Esaliens TFI S.A. (previously Legg Mason TFI S.A.).

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.

The basic contribution paid by the employer is defined as a percentage of salary of the Plan member. The basic contribution rate amounts to 7%. The additional contribution – voluntary, is paid by an employee – the Plan participant. The basic contribution is the income of the Program participant, from whom he is obliged to pay personal income tax (articles 12 and 13 of the Act on the income tax from individuals of 26 July 1991, Official Journal from 2019, item 1387 with amendments).

Payments from the Plan are paid after the 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 awards granted to the Management Board and people, whose professional operating has a significant impact on the Banks risk profile. From 1 of January 2015, employees with long-term work-experience (10, 20, 30 years etc.) are entitled to rewards in kind.

- employee equity benefits – in the form of phantom shares of Bank Handlowy w Warszawie S.A. and also in the form of common stock under stock award programs based on shares of Citigroup common stock in the form of deferred stock (capital accumulation plan – CAP). In 2019 there were no employees rewarded as part of the stock award programs based on Citigroup shares. 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 the “consolidated statement of financial position” and “General administrative expenses” in the income statement. The costs of the program are determined on the basis of the Bank’s shares price or Citigroup shares price. 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 deferred shares at the reporting date times the part of the rights that were deemed acquired in that period. 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	**31.12.2019**	**31.12.2018**
Provision for remuneration	58,977	56,281
Previsions for unused leave	11,951	12,194
Provision for employees’ retirement and pension benefits	68,325	58,340
Provision for employees’ equity compensation	14,364	15,456
Provision for workforce restructuring	-	-
	153,617	**142,271**

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 Group performed a reassessment of its estimates as at 31 December 2019, 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. The discount rate was set at 2.00% and wage growth rate at 2.3%.

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

PLN'000	2019 Provision for retirement allowances	2018 Provision for retirement allowances
As at 1 January	**58,340**	**51,768**
Increases (due to):	11,544	9,473
Actuarial profit/loss on revaluation	4,972	3,507
Including those resulting from:		
Change of economic assumptions	6,555	4,615
Change of demographic assumptions	-	93
Experience adjustment	(1,583)	(1,201)
Remuneration cost	4,822	4,106
Interest cost	1,750	1,860
Past employment cost	-	-
Decreases (due to):	(1,557)	(2,901)
Provisions utilisation	(1,557)	(2,901)
As at 31 December	**68,327**	**58,340**

Analysis of sensitivity for significant actuarial assumptions

in PLN thousand	2019 Provision for retirement and pension allowances	2018 Provision for retirement and pension allowances
Central value	68,327	58,340
Decrease of growth salary to 1 p.p.	60,211	51,403
Increase of growth salary to 1 p.p.	77,840	66,488
Decrease of rotation by 10%	71,454	61,111
Increase of rotation by 10%	65,455	55,804
Decrease of discount rate by 0.5 p.p., including:	70,738	61,911
Falling to benefits paid within 1 year	4,517	3,952
Increase of discount rate by 0.5 p.p., including:	66,310	54,765
Falling to benefits paid within 1 year	4,513	3,946

More information about defined benefit programs in the Banks financial report can be found in note 2.

In 2019, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 24,503 thousand (in 2018: PLN 23,757 thousand).

Employment in the Group:

FTEs	2019	2018
Average employment during the year	3,161	3,413
Employment at the end of the year	3,071	3,276

Description and principles of employee stock benefit schemes

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

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 a right to options revoked at the moment of employment termination in the Citigroup, provided the termination of said contract "Capital Accumulation Program – Prospectus" for granted options. Deferred shares granted in previous years will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

In 2019 no employees were rewarded as part of this program.

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

As of 22 December 2017 the Bank implemented the employee remuneration Policy of Bank Handlowy w Warszawie S.A., replacing the prior policy for the remuneration of key persons in the Bank Handlowy w Warszawie S.A.

According to the above mentioned policy's, 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 the Bank's financial results.

A portion of the Variable Remuneration awarded conditionally in 2019 for persons covered by the Policy will be paid in tranches during in the next 3,5 years or 6 years for the President of the Management Board.

Variable Remuneration – Phantom shares	
Transaction as per IFRS EU	Transactions share-based payments settled in cash in accordance with IFRS 2
Phantom Shares grant date	16 of January 2017 15 of January 2018 14 of January 2019
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	• Phantom Shares for the President of the Management Board ○ in 2017 - at least 6, 18, 30 and 42 months after grant date ○ in 2018 and 2019 – at least 12, 24, 36, 48, 60, 72 • Phantom Shares granted in 2016-2018 for other employees – at least 6, 18, 30, 42 months after grant date
Vesting date	• Phantom Shares for the President of the Management Board ○ in 2017 - at least 6, 12, 24 and 36 months after grant date ○ in 2018 and 2019 – at least 12, 24, 36, 48, 60 • Phantom Shares granted in 2017-2019 for other employees – at least 6, 12, 24, 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Group in • 2017: in relation to the award from 2017-2020 • 2018: ○ For the President of the Management Board in relation to the award from 2018-2023 ○ For other employee in relation to the award from 2018-2021 • 2019: ○ For the President of the Management Board in relation to the award from 2019-2024 ○ For other employee in relation to the award from 2019-2022
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 maturity 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 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 EU	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	16 of January 2017 15 of January 2018 15 of January 2019
Granted amount	The amount was settled on the Deferred Cash Award grant date
Date of maturity	• Deferred Cash Award for the President of the Management Board o in 2017 - at least 18, 30, 42 months after grant date o in 2018 and 2019– at least 18, 30, 42, 54, 66 • Deferred Cash Award granted in 2017-2019 for other employees – at least 18, 30, 42 months after grant date
Vesting date	• Deferred Cash Award for the President of the Management Board o in 2017 - at least 12, 24 and 36 months after grant date o in 2018 and 2019 – at least 12, 24, 36, 48, 60 • Deferred Cash Award granted in 2017-2019 for other employees – at least 12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Group in • 2017: in relation to the award from 2017-2020 • 2018: o For the President of the Management Board in relation to the award from 2019-2024 o For other employee in relation to the award from 2018-2021 • 2019: o For the President of the Management Board in relation to the award from 2019-2024 o For other employee in relation to the award from 2019-2022
Program settlement	At the settlement date, the participants will get an amount of Deferred Cash tranche with interest counted for the deferral period till the payment date. The interest rate was approved by the Resolution of the Supervisory Board in January 2017, 2018 and 2019. 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.

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:

CAP Program	Grant date	Exercise price/stock price at grant date [USD]	Number of eligible employees	Number of options/ shares
1	16.02.2016	37.05	1	201

Phantom Shares Program	Grant Date	Exercise price/stock price at grant date [PLN]	Number of eligible employees	Number of options/ shares
1	18.01.2017	77.31	42	15,954
2	16.01.2018	83.02	41	37,685
3	15.01.2019	69.10	41	64,082

	CAP Program	Phantom Shares Program
Period to acquire the title (in years)	25% after each of the following years	40% after 0.5 of a year and 20% after 3 following years, 40% after a year and 12% after 5 following years or 60% after 0.5 of a year and 13.33% after

Expected average life cycle of the instrument	At the time of rights acquisition	3 following years, 60% after a year and 8% after 5 following years At the time of rights acquisition
Probability of premature termination of employment (annual staff turnover for awarded employees)	0.00%	8.30%
Fair value of one instrument* (in USD)	77.92 (USD)	52.20 (PLN)

**Varies depending on the date of exercise*

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

	31.12.2019		31.12.2018	
	Number	**Weighted average share price [USD]**	**Number**	**Weighted average share price [USD]**
At the beginning of the period	651	42.05	2,482	46.69
Allocated in the period	-	-	-	-
Executed/redeemed/expired in the period	450	-	1,831	-
At the end of the period	201	37.05	651	42.05

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

	31.12.2019		31.12.2018	
	Number	**Weighted average share price [PLN]**	**Number**	**Weighted average share price [PLN]**
At the beginning of the period	112,754	79.42	110,631	80.19
Allocated in the period	127,171	69.10	115,643	83.02
Executed in the period	120,391	54.61	111,950	71.55
Redeemed/expired in the period	1,813	-	1,570	-
At the end of the period	117,721	74.67	112,754	79.42

On 31 December 2019, the book value of liabilities from the phantom share and CAP programs amounted to PLN 13,989 thousand (31 December 2018: PLN 25,635 thousand). The costs recognized in this respect in 2019 amounted to PLN 4,530 thousand (in 2018: 8,809 including the costs of CAP programs).

47. 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, arising from the applied business strategy. Such a 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.

The concept of risk management, taking into account the shared responsibility, is organized at three independent levels (three levels of risk reduction, interchangeably "three lines of defense"):

- Level 1 i.e.: Organizational units responsible for business activities resulting in risk taking and for risk management in the Group's operational activity.as well as risk identification and reporting to second line of defense,
- Level 2 i.e.: risk management in organizational units, independently from the risk management by the first Level, and compliance; organizational unit or employees responsible for establishing standards for the risk management in the scope of risk identification, measurement or estimation, mitigation, control, monitoring and reporting and for overseeing the control mechanisms applied by other organizational units to mitigate the risk – organizational units in Risk Management Sector, Compliance Department, Financial Division Legal Division; Human Resources Division,
- Level 3 i.e.: Internal Audit that provide an independent assessment of risk management processes and internal control system.

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, including operational risk strategy;
- approving a general level of the Group's risk appetite within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP),

- 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.

In addition, the Supervisory Board supervises the compliance of the Group's policy related to risk-taking with the Group's strategy and financial plan and performs the duties resulted from mentioned above strategies, regulations or other documents approved by the Supervisory Board.

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

- approves the organizational structure of the Group, with well-defined, transparent and consistent roles and responsibilities adequate for the size and risk profile, ensuring that the functions of risk measurement, monitoring and control are independent from risk taking activities;
- defines the Group'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;
- establishes the principles of prudent and stable risk management which constitute, together with the ICAAP Document, the risk management strategy, including operational risk strategy;
- approves the acceptable risk level ("Overall risk appetite"), within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP).

The Management Board of Bank nominates an independent Member of the Management Board responsible for risk management sector (Chief Risk Officer) 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).

Additionally responsible for:

- compile, implementation and update regulations, strategy and procedure in term of risk management, internal control and valuation of internal capital;
- review of valuation process and maintaining of internal capital and regulation of remuneration components.

Processes of managing of credit, market, operational risks are implemented in Group based upon written policies and principles of identification, valuation, monitoring and risk control accepted by the Management Board or appropriately nominated Committees,

In the risk management area there are following Committees:

- Assets and Liabilities Management Committee (ALCO);
- Risk and Capital Management Committee (RCMC), including Model Risk Commission and Consumer Group (GCB) Risk Commission;
- New Products Committee.

Member of the Management Board responsible for risk management sector 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, including interest rate risk in banking book;
- managing liquidity risk;
- managing operational risk;
- managing the equity process and model risk;
- model validation;
- supporting risk management in the above areas including in control functions;
- the 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 their 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 expected credit losses.

Significant Risks

The Group manages all significant risks arising from the implementation of its business strategy. In the process of significant risks identification in 2019, the Management Board considered the following type of risk as significant:

- Credit risk and counterparty risk,
- Liquidity risk,
- Market risk,
- Operational risk,
  - Compliance risk.

The Group monitors all the above types of risk. Due to portfolio characteristics in this chapter are presented principles related to management of credit risk (including counterparty risk and concentration), operational risk, liquidity risk, market risk in the trading book and interest rate risk in banking book.

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**, taking into account material concentration risk factors.

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. It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance 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

The Risk Management unit is responsible for establishing the principles of the Credit Policy for the Corporate Bank, the Credit Policy for the Commercial Bank and credit policies for the Consumer Bank as well as approving other policies, programs 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 Group, generally 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 Group's 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 Commission, 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 Group 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, of sector, management quality, client's business strategy, influence of vulnerability to regulatory environment on client, 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 a facility level, which may include one or more contracts, disposals or transactions;
- At an obligor level, if there are multiple facilities approved for an obligor where the risk associated with an obligor default can be assessed jointly;
- At a group level, considering the group structure of connected clients;

- At a portfolio level where Portfolio Risk Rating is calculated as the average rating of individual facility exposure ratings weighted with the size of exposure.

For ICG and CCB customers' credit exposures, the Group uses scoring models of the various level of complexity i.e. depending on the size of customer's portfolio and customer's industry.

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, own data 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 monitored regularly 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 a 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 take part in 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 the Group'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 the 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;
  - Credit 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 Group using external valuation where required;
- Monitoring and early warning system:
  - Credit exposures periodic monitoring and an 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 mortgages, guarantees and similar forms of support as well as pledge on fixed assets and assignment of receivables (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;
- the relationship of loan value to collateral value for each type of collateral;
- the 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.

Concentration in credit risk

In order to prevent adverse events resulting from excessive concentration, the Group reduces the concentration risk by setting limits airing from law and concentration standards adopted internally, in order to ensure adequate diversification of risk in the portfolio. The Group establishes General and specific limits to mitigate the risk of credit concentration, adequate to the approved risk appetite in the Group as well as business strategy

In its credit risk management, the Group takes into account in particular the risk arising from:

- exposure to single entities (including taking into account the effect of exposure to a single clearing house – KDPW CCP on the level of concentration risk exposure, particularly in the event of potential inability to meet the obligations of the clearing house), or related entities capitally or economically (counterparty concentration risk),
- exposure to the same industry, economic sector, similar type of activity or trading similar goods (industry concentration risk)
- exposure to the same geographical region, as well as individual countries (risk of geographical concentration)
- exposure to the entities belonging to the Capital Group of the Bank,
- exposure to counterparties in derivative transactions,
- used credit risk mitigation techniques (exposures secured by the same type of collateral), including due to large indirect credit exposures such as a single issuer (collateral concentration risk),
- specific of Group products/portfolio and exposure tenor,
- individual products, markets or currencies.

General concentration limits are approved on the Management Board level and monitored according to relevant Policy rules, primarily by the Risk and Capital Management Committee. Credit Risk and Business managers define (where appropriate) detailed internal concentration limits, control and reporting frequency and rules of approval for excesses and corrective action plans. Exceeding of established limits is reported, depending on the specific requirements of the Policy, to the approval of appropriate persons, the Risk and Capital Management Committee and the Bank Management Board together with corrective action plans.

In hedge concentration, in accordance with S Recommendation, are settled and controlled appropriate limits of commitments hedged with a mortgage.

Obligor exposure concentration risk

The Group limits the concentration of its exposure to a single customer or a group of customers with common ownership and/or organization. As at 31 December 2019, 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 9,286,610 thousand, i.e., 189 % of equity (31 December 2018: PLN 8 792 580 thousand, i.e., 177%). In 2019 and 2018 the Group complied with the provisions on limits of concentration of exposure.

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

	31.12.2019			31.12.2018		
PLN'000	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure
CLIENT 1	1,200,000	-	1,200,000	1,000,000	-	1,000,000
GROUP 2	907,844	134,518	1,042,362	369,570	253,148	622,718
GROUP 3	798,876	206,306	1,005,181	799,072	202,774	1,001,846
GROUP 4	631,959	171,724	803,683	537,517	180,813	718,330
CLIENT 5	653,720	96,280	750,000	263,100	486,900	750,000
GROUP 6	361,258	268,830	630,089	116,063	449,424	565,486
GROUP 7	106,471	518,472	624,943	107,523	521,365	628,888
CLIENT 8	605,484	-	605,484	556,637	-	556,637
CLIENT 9	545,000	-	545,000	-	-	-
GROUP 10	536,000	-	536,000	600,000	-	600,000
Total	**6,346,612**	**1,396,130**	**7,742,742**	**4,349,481**	**2,094,424**	**6,443,904**

**Excluding investment in shares and other securities.*
***The Group is understood as a capital group consisting of entities in relation to which the Capital Group of Bank Handlowy w Warszawie S.A. has exposures.*

The limits of the Group's maximal exposure are determined in the Grouping 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 Group to maintain an overdraft of liabilities level over limits determined in paragraph 71 of the Grouping Law Bill only in the 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 2019, the Group did not have an exposure to one entity exceeding the statutory exposure concentration limits.

*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 NACE*	31.12.2019		31.12.2018	
	PLN'000	%	PLN'000	%
Wholesale trade, except of motor vehicles	4,672,631	17.45%	4,695,369	17.48%
Financial service activities, excluding insurance and pension funds	3,912,715	14.62%	3,385,386	12.61%
Production and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,919,053	7.17%	2,760,531	10.28%
Activities of head offices; consulting related to the management	1,499,261	5.60%	1,028,293	3.83%
Retail trade, except of motor vehicles	1,141,985	4.27%	1,065,354	3.97%
Production of food products	1,134,162	4.24%	673,491	2.51%
Manufacture of fabricated metal products, except machinery and equipment	946,640	3.54%	1,084,312	4.04%
Mining of metal ores	937,344	3.50%	893,827	3.33%

Sector of the economy according to NACE*	31.12.2019		31.12.2018	
	PLN'000	%	PLN'000	%
Production of electrical equipment	906,495	3.39%	929,839	3.46%
Production and processing of coke and refined petroleum products	759,755	2.84%	862,454	3.21%
„10" industries total	**17,830,041**	**66.60%**	**17,378,856**	**64.71%**
Other industries	**8,941,245**	**33.40%**	**9,475,804**	**35.29%**
Total	**26,771,286**	**100.00%**	**26,854,660**	**100.00%**

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including Groups), based on NACE Revision 2 (The Statistical Classification of Economic Activities in the European Community).*

Gross amounts due from customers and Groups by type of business

PLN'000		31.12.2019	31.12.2018
Gross amounts due from economic entities and Groups			
Financial		4,116,998	3,515,374
Production		4,956,141	4,281,519
Services		4,512,671	4,793,637
Other		4,106,024	3,730,136
		17,691,835	**16,320,666**
Gross amounts due from individual customers		**7,706,947**	**7,534,795**
	(see Note 17, 22)	**25,398,781**	**23,855,461**

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 22.

Determination of Expected Credit Loss

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

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

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

The Group aggregates financial instruments in order to measure expected credit losses in terms of product in the area of retail banking and on a segmented basis for a homogeneous portfolio of micro-enterprises with a minimal share in total amounts due from the Group.

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

The Group identified overdue payments of financial assets for more than 30 days and the capability of this measure to identify significant increase in credit risk. The results of analysis indicated that extended review of customer exposure as part of periodic credit processes and in his results the internal classification is the measure more adequate in relation to days overdue. The process of override of Stages for institutional banking portfolio also confirmed this assumption. The analysis of 30 days overdue payments indicated the lack of correlations with above-mentioned credit risk because of the arrears on non-credit products in particular.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Significant financial difficulties of the client, which are described in detail in ICG / CCB / Micro Credit Procedures;
- Reduction of the client credit rating by an accepted by the Bank External Credit Assessment Institution[1];
- Breach of contract conditions, e.g. delay in interest or principal payments;
- Occurrence of economic or legal reasons related to the borrower’s financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, granting permission for emergency restructuring of credit exposure, if it might result in decreasing financial requirements, reduction of financial liabilities by redeeming a significant part of the principal, interest or, where applicable, fees or deferring their repayment or payment (forborne exposure);
- high likelihood of bankruptcy of the client or obtaining information about the opening of bankruptcy proceedings, appearance by the debtor for declaration of bankruptcy or for similar protection or putting the debtor in bankruptcy or granting him similar protection if it would allow him to avoid or delay repayment of credit obligations;
- request of the Group to initiate enforcement proceedings against the client;
- severe domestic or local economic conditions that may be related to the default of exposures;
- delay in payment equal to 90 days or more;

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

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

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

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

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

due to the poor financial standing of the debtor or by the transfer of assets beyond the scope of recovery, the exposures can be sold in exceptional cases.

The Group has established and applies a quarantine period for exposures that cease to be classified as Stage 3 assets.

In the area of institutional banking, a change in status may take place when there are no arrears to the Bank within a minimum period of 6 months and the principal amount and related additional claims under the contract are recoverable in full.

The main premise for changing the status from impairment to no impairment is complete recovery of creditworthiness.

In the retail area, the quarantine mechanism consists in maintaining the customer in the status of impairment for the next 9 months from the disappearance of all indications of impairment.

The Group uses the macroeconomic scenarios including explanatory variables in models used to measure impairment. Scenarios are prepared by the Chief Economist of the Group min. once a quarter in the three years horizon in division into quarters (based scenario with 60% weight and positive and negative variation from scenario with 20% weight).

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

Macroeconomic scenarios in the area of institutional including below variables:

- annual amendment of index WIG20,
- unemployment rate,
- inflation,
- PKB,
- unemployment rate „BAEL",
- WIBOR 3M rate.

However retail banking uses three variables in modeling the expected credit losses:

- unemployment rate,
- unemployment rate „BAEL",
- annual amendment of index WIG.

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

Scenarios and macroeconomic variables are updated on a quarterly basis.

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

The Group assesses sensitivity of expected credit losses with respect to applied methods and underlying assumptions, in particular concerning macroeconomic parameters. The table below presents change of expected credit losses for not impaired exposures that were determined as a difference between the expected credit losses estimated assuming one particular scenario and expected credit losses estimated using probability-weighted approach.

Change of expected credit losses for stage 1 and 2 assuming 100% scenario weight *as at 31.12.2019*	**Optimistic scenario**	**Pessimistic scenario**
Consumer Bank	(1 166)	1 246
Institutional Bank	(2 967)	3 575
	(4 133)	**4 821**

The Group analyses the sensitivity of expected credit losses in terms of methods and assumptions of the model of expected credit losses, in particular sensitivity to macroeconomic forecasts. The changes in expected credit losses for non-impaired exposures presented in the table below have been determined as the difference between the expected credit losses calculated for a specific macroeconomic scenario and the expected credit losses calculated taking into account all macroeconomic scenarios weighted by the probability of their realization.

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

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

PLN'000	Note	**31.12.2019**	**31.12.2018**
Gross receivables due from the Central Bank	16	3,300,490	6,850,129

Gross receivables due from banks	17	1,168,278	1,337,887
Gross receivables due from institutional customers**		16,715,476	15,080,556
Gross receivables due from individual customers***		7,706,947	7,535,018
Debt securities held-for-trading	18	3,881,815	931,172
Derivative instruments	18	1,524,780	1,282,677
Debt investment financial assets measured at fair value though other comprehensive income****	19	15,484,578	14,241,363
Other financial assets	27	106,183	160,823
Contingent liabilities granted	39	15,441,954	16,797,326
		65,330,500	**64,216,951**

*** As at December 31, 2019, the value of collateral diminishing the maximum exposure to credit risk for receivables from institutional clients amounted to PLN 3,289,249 thousand (31 December 2018: PLN 2,708,768 thousand).*
**** As at December 31, 2019, the value of collateral to reduce the maximum exposure to credit risk for receivables from individual clients amounted to PLN 1,922,434 thousand. PLN (31 December 2018: PLN 1,676,541 thousand).*

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 23.

Modification of financial assets

The impact on value of financial assets, whose cash flows resulting from the contract were modified however were not discontinued recognition, as at 31 December 2019 amounted PLN (44) thousand and net modification loss in 2019 amounted PLN 207 thousand.

The tables below present the portfolio grouped by receivables from customers with established impairment and receivables without impairment. The tables also present the details of impairment provision.

According to credit management process, Group identifies classifiable portfolio (individual assessment) and based on portfolio classification (portfolio assessment).

Exposures without impairment are classified based on the internal risk ratings from 1 to 7, where risk category 1 is the best rating.

Exposures, classified based, with identified impairment have assigned internal risk ratings from 8 to 10.

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 levels of external credit rating agencies, which implies that they indicate a 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.

Commitment due to customers in terms of credit risk:

PLN '000	**31.12.2019**				
	Receivables from institutional customers	**Receivables from individual customers**	**Receivables from banks**	**Total**	**Total including interest accrued for exposure at Stage 3**
Impaired receivables (Stage 3)					
Gross amount	**526,651**	**315,109**	**-**	**841,760**	**1,150,930**
Provision for expected for credit losses	(316,380)	(242,829)	-	(559,209)	(868,379)
Net amount	**210,271**	**72,280**	**-**	**282,551**	**282,551**
Not impaired receivables (Stage 2)					
By risk rating					
Risk rating 1-4-	209,328		3	209,331	209,331
Risk rating +5-6-	1,062,988	-	-	1,062,988	1,062,993
Risk rating +7 and greater	103,981	-	-	103,981	103,981
By delinquency					
No delinquency	-	836,264	-	836,264	836,264
1-30 days	-	102,726	-	102,726	102,726

PLN '000	31.12.2019				
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total	Total including interest accrued for exposure at Stage 3
31-90 days	-	40,256	-	40,256	40,256
Gross amount	**1,376,297**	**979,246**	**3**	**2,355,545**	**2,355,550**
Provision for expected for credit losses	(18,896)	(61,054)	0)	(79,950)	(79,954)
Net amount	**1,357,401**	**918,192**	**3**	**2,275,595**	**2,275,595**
Not impaired receivables (Stage 1)					
By risk rating					
Risk rating 1-4-	11,955,828	-	751,707	12,707,535	12,707,543
Risk rating +5-6-	2,856,700	433	416,556	3,273,690	3,150,531
By delinquency					
No delinquency	-	6,248,508	13	6,248,521	6,248,521
1-30 days	-	163,650	-	163,650	163,650
31-90 days	-	-	-	-	-
Gross amount	**14,812,528**	**6,412,591**	**1,168,276**	**22,393,396**	**22,270,245**
Provision for expected for credit losses	(28,174)	(23,216)	(2,594)	(53,984)	(53,991)
Net amount	**14,784,355**	**6,389,375**	**1,165,682**	**22,339,412**	**22,216,254**
Total gross value	**16,715,476**	**7,706,947**	**1,168,279**	**25,588,527**	**25,776,725**
Provision for expected for credit losses	(363,450)	(327,099)	(2,594)	(690,969)	(1,002,325)
Total net value	**16,352,026**	**7,379,848**	**1,165,685**	**24,897,559**	**24,774,400**

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 23.

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

PLN '000	31.12.2018		
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks
Impaired receivables (Stage 3)			
Gross amount	**348,039**	**378,450**	**-**
Impairment provision	(244,189)	(291,485)	-
Net amount	**103,850**	**86,965**	**-**
Not impaired receivables (Stage 2)			
By risk rating			
Risk rating 1-4-	56,158	-	2
Risk rating +5-6-	632,681	-	-
Risk rating +7 and greater	143,279	-	-
By delinquency			
No delinquency	-	657,366	-
1-30 days	-	105,640	-
31-90 days	-	46,976	-
Gross amount	**832,118**	**809,982**	**2**
Impairment provision	(16,387)	(58,389)	-
Net amount	**815,731**	**751,593**	**2**
Not impaired receivables (Stage 1)			
By risk rating			
Risk rating 1-4-	11,576,050	-	822,928

PLN '000	31.12.2018		
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks
Risk rating +5-6-	2,324,349	-	514,957
By delinquency			
No delinquency	-	6,140,959	-
1-30 days	-	205,627	-
31-90 days	-	-	-
Gross amount	**13,900,399**	**6,346,586**	**1,337,885**
Impairment provision	(28,882)	(27,228)	(3,910)
Net amount	**13,871,517**	**6,319,358**	**1,333,975**
Total gross value	**15,080,556**	**7,535,018**	**1,337,887**
Impairment provision	(289,458)	(377,102)	(3,910)
Total net value	**14,791,098**	**7,157,916**	**1,333,977**

Structure of derivatives in terms of credit risk:

PLN '000	31.12.2019			31.12.2018		
	Transactions with institutional customers	Transactions with individual customers	Transactions with banks	Transactions with institutional customers	Transactions with individual customers	Transactions with banks
Derivatives by risk rating						
Risk rating 1-4-	863,566	8,894	587,849	579,490	5,006	676,910
Risk rating+5-6-	40,085	-	24,320	7,178	-	14,088
Risk rating +7 and greater	67	-	-	5	-	-
Total	**903,718**	**8,894**	**612,169**	**586,673**	**5,006**	**690,998**

The classification of exposures in the portfolio of debt securities held for trading and portfolio of debt securities measured at fair value through other comprehensive income by ratings agency Fitch is presented below:

PLN '000	31.12.2019		31.12.2018	
	Debt securities held-for-trading*	Debt securities measured at fair value though the income statement*	Debt securities held-for-trading	Debt securities available-for-sale
Issuer rating by Fitch agency				
A (including: from A- to AAA)	3,881,815	15,484,578	931,172	14,241,363
Total	**3,881,815**	**15,484,578**	**931,172**	**14,241,363**

Structure of the granted contingent liabilities from the credit risk point of view as at December 31, 2019:

PLN '000	31.12.2019		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Contingent liabilities granted (Stage3)	**67,574**	**1,306**	**-**
by risk rating			
Risk rating +7and greater	67,574	-	-
Contingent liabilities granted (Stage 2)	**639,821**	**1,219,855**	**3,323**
by risk rating			
Risk rating 1-4-	132,895	-	-
Risk rating+5-6-	426,514	-	3,323
Risk rating +7and greater	80,412	-	-

Contingent liabilities granted (Stage 1)	**8,177,658**	**4,964,158**	**368,259**
by risk rating			
Risk rating 1-4-	6,828,244	-	364,951
Risk rating+5-6-	1,349,414	-	3,308
Total	**8,885,053**	**6,185,319**	**371,582**

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

PLN '000	**31.12.2018**		
	Liabilities due to institutional customers	**Liabilities due to individual customers**	**Liabilities due to banks**
Contingent liabilities granted (Stage3)	**30,988**	**1,401**	**-**
by risk rating			
Risk rating +7and greater	30,988	**-**	-
Contingent liabilities granted (Stage 2)	**410,128**	**1,095,455**	**-**
by risk rating			
Risk rating 1-4-	17,754	-	-
Risk rating+5-6-	380,297	-	-
Risk rating +7and greater	12,077	-	-
Contingent liabilities granted (Stage 1)	**10,004,762**	**4,798,669**	**455,923**
by risk rating			
Risk rating 1-4-	8,424,766	-	449,124
Risk rating+5-6-	1,579,996	-	6,799
Total	**10,445,878**	**5,895,525**	**455,923**

"Forbearance" practices

Forborne exposures are identified in the Group within credit risk management. Bank takes into account "forborne" exposures according to the reporting requirements under the EBA Technical Standards EBA/ITS/2013/03.

The Group considers as "forborne" exposures, where the Group grants debtor experiencing financial difficulties preferential financing conditions (i.e. on non-market conditions), which would not have been considered in a different situation. 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.

In terms of institutional clients,, the Group recognizes "forborne" status for exposures with identified impairment, which entails the need to write off some of the receivables.

In terms of retail exposure, the "forborne" status may refer to both the exposures: from the impaired portfolio as well as from the portfolio without any impairment. As "forborne" without impairment are recognized by the Group exposures, where restructuring activities were applied, but change of financing conditions has not implied any deterioration of future payment streams. In such cases the change into "forborne" status is not an evidence of exposure's impairment.

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

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

Exposure values in the "forborne" status:

PLN '000	31.12.2019	31.12.2018
Receivables without recognized impairment	23,580,662	21,889,085
Receivables without recognized impairment (Stage 1), including	21,225,119	20,246,985
non-financial sector entities	18,072,331	18,098,779
Institutional customers	11,659,740	11,752,193
Individual customers	6,412,591	6,346,586
Receivables without recognized impairment (Stage 2), including:	2,355,543	1,642,100
non-financial sector entities	2,355,529	1,642,100
Institutional customers	1,376,283	832,118
Individual customers	979,246	809,982
Receivables with recognized impairment (Stage 3), including:	841,760	726,489
non-financial sector entities	841,760	726,489
Institutional customers, including:	526,651	348,039
„forborne"	169,297	78,281
Individual customers, including:	315,109	378,450
„forborne"	19,195	19,791
Total gross amount, including:	**24,422,422**	**22,615,574**
non-financial sector entities	21,269,620	20,467,368
Institutional customers, including:	13,562,674	12,932,350
„forborne"	169,297	78,281
Individual customers, including:	7,706,946	7,535,018
„forborne"	19,195	19,791
Provision for expected credit losses	**(690,548)**	**(666,560)**
On „forborne" receivables	(76,363)	(59,555)
Total net amounts due from customers, including:	**23,731,874**	**21,949,014**
„forborne" receivables	112,129	38,517

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 23.

LIQUIDITY RISK

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 the 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 risk management of the Group as well as general risk levels approved by the Supervisory Board of the Bank;

taking into account the best market practice.

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

- Member of the Management Board responsible for 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. The adopted measures and limits aim to limit the excessive concentration in terms of the balance sheet structure and sources of financing.

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 established on annual bases Funding and Liquidity Plan which defines the size of internal limits taking into account the business plans for changes in assets and liabilities that are being prepared by business units of the Group as part of the financial plans for the next budget year.

Short-term liquidity management, in the three-month time horizon, is the responsibility of the Financial Markets and Corporate Banking Sector 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 Financial Markets and Corporate Banking Sector 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 entities is a part of the entities, management board responsibilities. ALCO is the supervisor of the Group's entities liquidity supervision.

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

Funding and Liquidity Plan

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

Liquidity risk management tools

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

The supervisory liquidity measures

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

	31.12.2019	31.12.2018	Change
M1 - Short-term liquidity gap (PLN)	9,126,042	6,517,776	2,608,266
M2 - Short-term liquidity ratio	1.26	1.18	0.08
M3 - Coverage of illiquid assets with regulatory capital	4.98	6.08	(1.10)
M4 - Coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	1.58	1.44	0.14
LCR*	163%	168%	(5%)

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 –MAR/S2;
- 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 twelve-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 Financial Markets and Corporate Banking Sector 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") – serious disruptions of financial markets;
- Local market event.

Contingency Funding Plan

Financial Markets and Corporate Banking Sector 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 in stress conditions and the level of liquid assets as at 31 December 2019 and 31 December 2018.

The cumulative liquidity gap as at 31 December 2019 in real terms:

PLN'000	**Up to 1 month**	**More than 1 to 3 months**	**More than 3 months to 1 year**	**More than 1 year to 2 years**	**More than 2 years**
Assets	20,760,753	391,612	778,774	235,278	29,819,109
Liabilities	8,169,834	4,479,486	19,091	-	39,317,115
Balance-sheet gap in the period	12,590,919	(4,087,874)	759,683	235,278	(9,498,006)
Conditional derivative transactions – inflows	22,718,553	5,726,397	14,890,210	12,000,485	16,165,204
Conditional derivative transactions – outflows	22,792,316	5,752,159	14,908,722	11,913,776	16,189,238
Off-balance-sheet gap in the period	(73,763)	(25,762)	(18,512)	86,709	(24,034)
Potential utilization of credit lines granted	566,316	477,866	415,396	-	(1,459,578)
Cumulative gap	11,950,840	7,359,338	7,685,113	8,007,100	(55,362)

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

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

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
Cumulative gap	11,446,062	6,138,736	6,230,476	6,207,114	(197,869)

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

PLN'000	31.12.2019	31.12.2018	Change
Liquid assets, including:	22,875,757	22,229,407	646,350
nostro account in NBP and stable part of cash	3,509,364	7,056,872	(3,547,508)
debt securities held-for-trading	3,881,815	931,172	2,950,643
debt financial assets measured at fair value through other comprehensive income*	15,484,578	14,241,363	1,243,215
Cumulative liquidity gap up to 1 year	7,685,113	6,230,476	1,454,637
Coverage of the gap with liquid assets	Positive gap	Positive gap	

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

As at 31 December 2019

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	28	2,125,495	2,108,386	2,000	15,007	45	57
Financial liabilities held-for-trading							
Short positions in financial assets	18	248,406	248,406	-	-	-	-
Amounts due to customers, including:	29	**39,787,807**	**37,228,862**	**1,233,802**	**1,291,452**	**33,615**	**76**
Deposits from financial sector entities	29	4,556,646	4,554,687	260	1,676	-	23
Deposits from non-financial sector entities	29	34,962,850	32,531,925	1,172,136	1,234,324	24,412	53
Other liabilities	29	268,311	142,250	61,406	55,452	9,203	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	18	1,974,225	41,303	35,685	99,783	1,077,118	720,336
Hedging derivatives		19,226	-	-	-	19,226	-
Unused credit lines liabilities	39	12,935,767	11,620,970	-	236,039	870,275	208,483
Guarantee lines	**39**	2,321,513	2,321,513	-	-	-	-
		59,412,439	**53,569,440**	**1,271,487**	**1,642,281**	**2,000,279**	**928,952**
Derivatives settled on a gross basis							
Inflows		72,862,917	23,340,936	6,612,768	15,187,355	19,967,407	7,754,451
Outflows		72,760,656	23,414,973	6,643,496	15,055,276	19,883,352	7,763,559
		102,261	**(74,037)**	**(30,728)**	**132,079**	**84,055**	**(9,108)**

As at 31 December 2018

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	28	1,402,233	1,384,456	2,683	15,000	43	51
Financial liabilities held-for-trading							
Short positions in financial assets	18	348,130	348,130	-	-	-	-
Amounts due to customers, including:	29	**38,334,345**	**36,821,651**	**1,054,500**	**436,919**	**21,202**	**74**
Deposits from financial sector entities	29	7,040,000	7,037,511	396	2,072	-	21
Deposits from non-financial sector entities	29	31,057,448	29,633,784	1,040,283	363,370	19,959	53
Other liabilities	29	236,897	150,356	13,821	71,477	1,243	-
Financial liabilities held-for-trading							

Derivative financial instruments (settled on a net basis)	18	1,404,897	31,043	36,410	55,593	864,397	417,454
Unused credit lines liabilities	39	14,023,057	11,133,577	7,008	578,036	2,132,056	172,380
Guarantee lines	**39**	2,636,600	2,636,600	-	-	-	-
		58,149,263	**52,355,457**	**1,100,601**	**1,085,548**	**3,017,698**	**589,959**
Derivatives settled on a gross basis							
Inflows		65,735,761	22,003,732	9,558,726	10,313,851	15,521,711	8,337,741
Outflows		65,529,703	21,987,856	9,546,774	10,300,415	15,373,789	8,320,869
		206,058	**15,876**	**11,952**	**13,436**	**147,922**	**16,872**

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 as 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. The adopted market risk measures and limits aim to prevent excessive concentration of exposure to a single risk factor or a group of related risk factors, as well as to determine the overall maximum level of risk taken in the trading or banking book. 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 risk management of the Bank as well as general risk levels approved by the Supervisory Board of the Bank;

taking into account best market practice.

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

- Member of the Management Board responsible for 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 a 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 Financial Markets and Corporate Banking Sector 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 a reflection of economic nature and risk resulting from products offered to customers of the Group. In this area, the Group 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 Group's and Corporate Banking Sector 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 Group) or undefined maturity or interest rate revaluation date are classified into appropriate revaluation bands in accordance with historically observed or expert assessed shifts in the moment and scale of change in the interest rate of given positions in relation to change in the market interest rates (model of minimizing product margin variability). This group of transactions / balance-sheet positions includes among others: current accounts, card loans, overdraft facilities. Additionally, early loan repayments are taken into account based on analysis of actual repayments made by customers before the due date and product interest rate revaluation profiles are set on that basis. This pertains particularly to installment loans;
- transactions insensitive to changes of interest rates, including cash, fixed assets, equity, other assets/liabilities, are classified into the longest revaluation band;
- transactions executed directly by the Financial Markets and Corporate Banking Sector for the purpose of management of interest rate risk and liquidity risk (Financial Markets and Corporate Banking Sector 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 to estimate the 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 Group 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 2019 and 31 December 2018. 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	**31.12.2019**		**31.12.2018**	
	IRE 12M	**IRE 5L**	**IRE 12M**	**IRE 5L**
PLN	27,103	78,293	10,444	87,021
USD	15,045	19,732	16,798	31,102
EUR	9,980	9,134	(3,103)	1,973

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

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

Activities relating to securities available-for-sale are the responsibility of the Assets and Liabilities Management Department within the Professional Markets 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 Financial Markets and Corporate Banking Sector from other organizational units of the Bank or the Group's entities;
- opening of own interest rate risk positions on the Group's books by the Financial Markets and Corporate Banking Sector.

In order to avoid excessive fluctuations in the Group'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 measured at fair value through other comprehensive income 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 measured at fair value through other comprehensive income 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	31.12.2019			Total in the period 01.01.2019 – 31.12.2019		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(3,182)	(3,489)	307	(3,089)	(2,528)	(3,412)
USD	(159)	(159)	-	(109)	-	(186)
EUR	(357)	(357)	-	(439)	(311)	(533)

PLN '000	31.12.2018			Total in the period 01.01.2018 – 31.12.2018		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(2,538)	(2,538)	-	(2,471)	(1,461)	(3,032)
USD	-	-	-	(14)	-	(18)
EUR	(316)	(316)	-	(392)	(316)	(450)

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 2019 are presented in the table below:

PLN'000	**31.12.2019**	**31.12.2018**	**In the period 1.01.2019 – 31.12.2019**		
			Average	**Maximum**	**Minimum**
PLN	(54)	671	249	974	(568)
EUR	(13)	100	(23)	105	(161)
USD	144	54	48	157	(37)

Average exposures to the interest rate risk in the local currency in 2019 was lower comparing to the level from the previous year and amounted to PLN 350 thousand. Average exposure to the interest rate risk in EUR was slightly lower than in 2018 (DV01 amounted to PLN 67 thousand, compared to PLN 70 thousand in the previous year). Average exposure in USD was lower than in 2018 (DV01 amounted to PLN 50 thousand, compared to PLN 68 thousand in 2018). The maximum exposure in PLN of the biggest exposures accepted by the Treasury Division was PLN 974 thousand compared to PLN 1 106 thousand in 2018 and the position in EUR amounted to PLN 105 thousand compared to PLN 168 thousand in the previous year.

The Financial Markets and Corporate Banking Sector, 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 2019:

PLN'000	**31.12.2019**	**31.12.2018**	**In the period 1.01.2019– 31.12.2019**		
			Average	**Maximum**	**Minimum**
Currency risk	69	174	577	2,829	56
Interest rate risk	5,947	6,889	8,219	11,950	4,831
Spread risk	3,040	2,612	4,757	9,697	2,545
Total risk	**6,678**	**7,334**	**9,695**	**13,775**	**5,861**

The overall average level of the market risk of the trading portfolios was 25% higher in 2019 than the average level in 2018, representing an increase by over PLN 1,900 thousand, mainly as a result of higher exposures to credit spread changes. The maximum price risk level was PLN 13,775 thousand, compared to PLN 15,043 thousand in 2018.

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:

31.12.2019

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	4,338,630	5,529,553	21,386,884	20,185,257	10,704
USD	1,642,699	5,122,036	20,863,504	17,393,833	(9,666)
GBP	17,279	389,976	742,199	371,438	(1,936)
CHF	468,768	227,731	2,029,207	2,274,823	(4,579)
Other currencies	96,855	201,225	2,173,226	2,064,715	4,141
	6,564,231	**11,470,521**	**47,195,020**	**42,290,066**	**(1,336)**

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

31.12.2018

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

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

OPERATIONAL RISK

Strategic goals and assumptions of the operational risk management 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 is supported by an operational risk assessment, and the business is assessed on the basis of pre-determined indicators of control and operational risk).

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

The Management Board and subsidiary Management Boards are 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, assessment/measurement, 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 with frequency correlated with the committees' meetings, determining the scale and types of operational risk that the Bank is exposed to, methods of operational risk management, probability of risk's 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 entire or partial internal control system.

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.

It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk.

Operational Risk does not cover strategic risks 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: Compliance risk, Technological risk, Outsourcing risk, Misappropriation risk, Money Laundering risk, Information Security risk, External or internal events risk (Continuity of Business), Tax and Accounting risk, Product risk, Legal risk, Models risk, Staffing risk, Concentration risk, Conduct risk.

As part of operational risk, the following difficult to measure risks, which were identified as significant, are identified: compliance risk, model risk, outsourcing risk and information security risk (including cyber risk).

Rules of operational risk identification

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

Group's organizational units and the Independent Control and Operational Risk Department use in the operational risk identification processes, regular analysis of information generated using the tools of operational risk management (e.g. risk appetite, target risk profile, KRI, data loss and operational risk incidents, issues and corrective actions, self-assessment process, risk maps, key projects, risk areas concentration and areas of increasing risk exposure level of risk, scenario analysis, stress testing, changes in processes and products, operational risk attestations, information from internal and external reviews and audits, information reported to the Commissions and Committees).

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). The Group defines its operational risk profile based on operational loss data and based on information gathered through utilized operational risk management tools.

The target operational risk profile, facilitating identification of concentration risk, 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 the main areas of the Group's activity.

Measurement and assessment

In the process of risk estimation Group applies differentiated methods of risk measurement and assessment. Risk assessment is the determination of the probability of occurrence and scale of potential future operational losses. Group applies quantitative and quantitative methods for the purpose of risk assessment (e.g. appetite for risk, capital requirements, the target risk profile, KRI, data loss and operational risk events, issues and corrective actions, the process of self-assessment, risk map, key projects, concentration risk areas and increasing the risk level, scenario analysis, stress tests, changes in processes and products, operational risk attestations, information from internal and external reviews and audits, information reported to the Commissions and Committees). Risk assessment analyses involve internal and external threats. Proper operational risk assessment enables adequate determination of risk profile and adequate risk management.

Assessed capital requirement for operational risk covers all risk categories included by the Group in operational risk definition.

Risk tolerance framework, risk control and mitigation

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

Risk and Capital Management Committee or 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 an 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 a particular threat to the external party, in particular by outsourcing of activity to an 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 a given threat to an external entity, in particular by outsourcing or insurance. The Group regularly assesses and monitors the proper functioning of risk transfer mechanisms.

Monitoring and reporting

The Risk and Capital Management Committee and Operational Risk, Control and Compliance Committees are 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 to inspections and assessment carried out by the internal audit.

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

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

Based on synthetic operational risk reports, presented periodically by the Management Board at least twice 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 and risk concentration areas, 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 the Management Board, one of its members – Risk Management Sector Head - supervises Independent Control and Operational Risk Department.

The Management Board is supported by the Operational Risk, Control and Compliance Committees and the Risk and Capital Management Committee.

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 covers monitoring and testing of the adequacy and effectiveness of the key controls mechanisms (Managers Control Assessment), vertical monitoring, 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 the Group'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.

The Audit Department (IA-Internal Audit) is responsible for independent assessment of the 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 making with regard to risk management and management of the Group.

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 7,081,072 thousand as at 31 December 2019 (as at 31 December 2018: PLN 7,056,750 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 5,126,181 thousand (as at 31 December 2018: PLN 4,970,103 thousand) Such a 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	**31.12.2019**	**31.12.2018**
Common Equity Tier 1 Capital	**5,122,175**	**4,970,103**
Total capital requirements, including:	**2 379 064**	**2,361,451**
credit risk capital requirements	1 889 760	1,893,873
counterparty risk capital requirements	95 797	50,745
Credit valuation correction capital requirements	26 314	28,466
excess concentration and large exposures risks capital requirements	-	12,459
total market risk capital requirements	81 802	95,391
operational risk capital requirements	285 391	280,517
Common Equity Tier 1 Capital ratio	**17,2%**	**16.8%**

**Total capital 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.*

Both in 2019 and 2018 there was a single concentration limit breach that was immediately reduced and KNF was notified.

48. Subsequent events

The most fundamental risk factor in the first half 2020 is SARS-CoV-2 virus causing contagious COVID-19 disease. Initially it was identified in China, while the unprecedented scale of its spread to other countries caused the World Health Organization (WHO) on March 11, 2020 to officially declare a pandemic virus. The spread of the virus will affect all major economies in the world, reducing labor and consumer mobility and leading to supply chain disturbances. As a result, economic growth in Poland and among its primary trading partners may turn out to be much lower than previously forecasted. The magnitude of the economic growth drop is currently difficult to estimate. Such as significant slowdown will certainly translate into a deterioration of the financial situation and growing liquidity problems, mainly in the SME sector. In the first stage of the pandemic in Poland, industries such as transport, tourism, clothing and the production of electronic equipment will suffer the greatest negative impact.
The Polish government has taken unprecedented steps to limit the spread of the virus in Poland. They concern the closing of the country's borders to foreigners, the ban on organizing public gatherings of over 50 people and the closing of all universities, schools and kindergartens. On March 20, 2020, epidemic state was declared in Poland.

The weakening of economic growth and persistent uncertainty will have a negative impact on the volume of loans sold to both retail and institutional clients. As a consequence, this will translate into lower interest income, which is the most important source of income for the Group. At the same time, on March 18, 2020, the National Bank of Poland reduced the reference rate by 50 basis points (to the lowest level in history: 1.00%), which will lead to lower margins on credit products and a lower profitability of treasury bonds. The aforementioned deterioration in the financial standing of borrowers - Group customers will have a negative impact on the expected credit losses. As a result, the above factors may have a negative impact on the profitability and capital base of the banking sector. On the other hand, in order to maintain demand for loans among retail customers, the Group will focus more intensively on selling loans via remote channels, which may have a positive impact on the Bank's cost base.

In order to limit the effects of the pandemic on the Polish economy, a number of initiatives have been set up by the National Bank of Poland, the Polish Financial Supervision Authority, the Government of the Republic of Poland and the Polish Bank Association (representative of banks).

On March 16, 2020, the Management Board of the National Bank of Poland ("NBP") announced that it introduces instruments supplying banks with liquidity. One of these tools is the first quantitative easing program in the history of the NBP and it reflects the purchase of Treasury bonds on the secondary market, introducing discount credit in aim to the refinancing of loans granted by banks to non-financial corporations and conducting operations supplying banks with liquidity so – called repo operations.

On March 18, 2020, the Polish Financial Supervision Authority (KNF) appointed the Supervisory Stimulus Package strengthening the resilience of the Polish banking sector and to enhance its ability to finance the economy. The PFSA's proposal includes in the following areas: provisions and classification of credit exposures, capital buffers, liquidity requirements and the area of day-to-day supervision. At the same time, the Ministry of Finance issued an ordinance regarding repealing the ordinance on the systemic risk buffer (previously the buffer for the Bank was 2.83%, while for groups 2.84%).

On March 18, 2020, the government of the Republic of Poland presented its assumptions regarding the anti-crisis package for clients and employees. The anti-crisis shield covers five pillars: employee safety, business insurance, health protection, financing system security and public investment program.

The offer of the Polish Bank Association ("ZBP") allows clients to not pay principal and interest of installments or principal of installments for a period of three months and they are automatically extended for the same period of total repayment period ("loan vacations").

The current activities of the Group, in line with sectoral initiatives, concern the introduction of a special offer for clients whose employers have been affected by the COVID-19 epidemic. As part of this offer, retail customers can take advantage of the deferred repayment program up to 3 loan installments. In addition, the Group made it possible to make contactless payments at POS terminals with all Citi Handlowy payment cards up to PLN 100 without having to enter a PIN (currently PLN 50). For the Group, customer safety is a priority, which is why it offers online banking through Citibank Online and mobile application through Citi Mobile, which are available 24/7 and thanks to which customers can perform ongoing banking operations without leaving home.

At the time of publication of the annual report, it is impossible to quantify the impact of the ongoing pandemic impact and the above-mentioned stabilization packages on the financial situation and business activities of the Group and the entire banking sector. Nevertheless, the Group's liquidity and capital position remains good. Emerging legislative proposals are subject to constant monitoring and assessment of the Group.

The Group has and implements appropriate plans, infrastructure and organizational solutions to ensure business continuity and critical functions. Constant monitoring and evaluation of the development of the epidemiological situation is carried out on a number of dimensions of the Group's operations as well as cooperation with supervisory institutions in order to maintain financial sector stability.

After 31 December 2019 there were no other major events undisclosed in these financial statements that could have a significant influence on the net result of the Group.

Signatures of Management Board Members

25.03.2020	Sławomir S. Sikora	President of the Management Board
.... Date	.... Name	.... Position/function
25.03.2020	Natalia Bożek	Vice-President of the Management Board
.... Date	.... Name	.... Position/function
25.03.2020	Maciej Kropidłowski	Vice-President of the Management Board
.... Date	.... Name	.... Position/function
25.03.2020	Barbara Sobala	Vice-President of the Management Board
.... Date	.... Name	.... Position/function
25.03.2020	James Foley	Member of the Management Board
.... Date	.... Name	.... Position/function
25.03.2020	Katarzyna Majewska	Member of the Management Board
.... Date	.... Name	.... Position/function