Annual Report 2018

Annual Report 2018

Dear Shareholders,

Poland's economy achieved excellent growth in 2018. Exceptionally high GDP growth together with, among other things, record-low unemployment translated into a surge of optimism among our clients. Bank Handlowy w Warszawie S.A. Group, which operates under the brand of Citi Handlowy, made the most of both the good economic situation and the positive customer sentiment. In 2018, we, again, expanded the scale of our business and proved that our organization is a trustworthy partner of companies, individual clients and investors.

In 2018, the net profit of the Group increased by 19.3 percent to PLN 638.9 million. This was enabled by the consistent growth of revenues to PLN 2,160 million, i.e. by 4.4 percent as compared to 2017. As declared, our return on equity (ROE) exceeded 10 percent, i.e. it was significantly above the banking sector level of 7.2 percent. In turn, our ROA was 1.4 percent, versus 0.80 percent for the entire banking sector.

We extensively support our clients in the pursuit of their own plans. Our business with institutional clients rose 13 percent year over year (assets increased in all segments: corporate clients +16 percent yoy, global clients +16 percent yoy and commercial bank +6 percent yoy). We can also be proud of our success in treasury and trade solutions banking where the average balance on operational accounts increased by 4 percent yoy.

We were consistently following the newest trends and technologies while co-creating and implementing them for the benefit of our clients. In the years to come, one of our strategic target groups will be the economy-of-tomorrow companies with a high growth potential, which we want to provide with financial solutions that enable a swift adaptation of their business models to their rapidly changing scale of operations. As part of this leading-edge approach, we launched Digital Onboarding last year for acquiring and serving institutional banking clients. It is carried out fully online, using iPads – it is totally paperless from the start.

Sławomir S. Sikora
President of the Management Board

In 2018, we were successfully developing our e-commerce offering for institutional clients. Our main strength is still our online foreign exchange platform Citi FX Pulse, which gives access to more than 130 currencies and enables its users to carry out transactions round the clock from any place in the world. This solution helped us maintain our leading position in the FX market and increase our FX transaction volumes by 3 percent versus 2017. Cooperation with the largest e-commerce partners also brought an increase in the sales of the credit card in digital channels by 26% yoy. Based on co-operation with the biggest players in the e-commerce market, the cutting-edge acquisition strategy of Citi Handlowy's Credit Card received the main prize in the "Business Model" category in the Innovation 2018 Award organized by Stowarzyszenie Komunikacji Marketingowej SAR.

The Bank is also a reliable partner of the Polish Government. Traditionally, for the sixth time in a row, Citi

Net profit of the Group
19,3%
638,9 PLN MM

Revenues growth
4,4%
2160 PLN MM

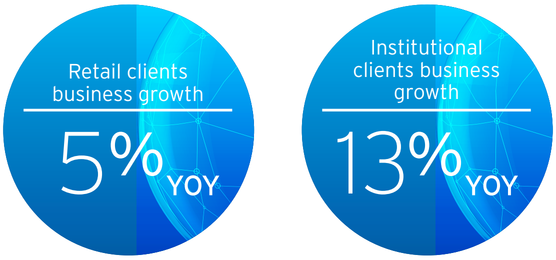
ROA
1,4%

ROE
10%

Volumes growth
3% YOY
FX

Handlowy took the first place in the competition organized by the Ministry of Finance to select Treasury Securities Dealers for 2018. Yet another consecutive victory of the Bank in the prestigious competition held since 2002 confirms our strong position in this market segment.

In 2018, our institutional clients business increased by more than 10 percent concurrently with the growth of our retail operations. In the latter strategic area of our activities, we achieved a 5 percent increase in business with retail clients, including as a result record high sales of mortgage loans (PLN 357 million, i.e. +12 percent yoy). The deposits our clients placed with us rose by 15 percent yoy, to a considerable extent thanks to our successful efforts to win the trust of our strategic target group – Citi Private Client (increase by 8 percent yoy).



As the first bank in Poland, Citi Handlowy made its APIs available, thus giving third parties access to data of clients of banks in accordance with the EU Payment Services Directive 2 (PSD2). During the PSD2 Challenge, i.e. a competition arranged by Citi Handlowy for the best integration with the use of APIs, for instance with respect to compliance with the Directive, we looked for the most interesting concepts of integration of APIs we use for acquisition and corporate purposes. Our achievements in the area of banking digitization are confirmed by the total number of the Bank's clients who use mobile banking – showing a 22 percent increase between the fourth quarter of 2017 and the fourth quarter of 2018. In 2018, we also made our début in the area of contextual banking, which enabled our clients to use a dedicated Citi Specials program of privileges, for example discounts when shopping or limited pre-sale concert ticket offerings.

Our solutions are acclaimed by both clients and experts, as well as the media. We won an award in the 15th annual Private Banking Survey by "Euromoney". The private banking of Citi Handlowy was also acknowledged in a ranking of Forbes Magazine – "Perfect Banks for the Most Wealthy", where the offer of Citi Handlowy received the highest note, that is 5 stars. The Bank was rewarded in the ranking for its globality, under which it offers its services to clients running their businesses all over the world. The judges' panel of the Golden Banker ranking named the Citi Simplicity Credit Card the best card in the market for the third time in a row. The Cash Loan at Citi Handlowy also ranked among 3 top products. The credit card has been a flagship product of Citi Handlowy for 20 years. It is appreciated by clients for clear and transparent rules and outstanding functionality.

In another ranking – World's Best Consumer Digital Banks In Central & Eastern Europe 2018, published by the American prestigious "Global Finance" magazine, Citi Handlowy was named the Best Digital Bank in Poland. We received a distinction for top quality electronic banking services for retail clients.

We achieved those excellent results and achievements while ensuring capital security of the Bank as financial strength is incessantly one of Citi Handlowy's distinguishing advantages. We keep our capital adequacy ratio at 16.8 percent, i.e. about 5.2 p.p. above the new minimum capital thresholds.

In 2018, we started a new chapter of Citi Handlowy's history, in which digitization has a key role to play. So, we commenced the digital transformation of the Bank, following our strategy adopted for 2019–2021. This strategy is made of 3 main components: usage of technology (including tools for data collection and processing and opportunities created by artificial intelligence, machine learning and cloud technologies), contextual banking for clients and transformation of Citi Handlowy's organizational culture towards a model which ensures the maximum utilization of opportunities offered by digital revolutions.

> ***We achieved those excellent results and achievements while ensuring capital security of the Bank as financial strength is incessantly one of Citi Handlowy's distinguishing advantages. We keep our capital adequacy ratio at 16.8 percent, i.e. about 5.2 p.p. above the new minimum capital thresholds.***

The planned digitization of Citi Handlowy is based on solutions that meet the evolving needs of clients and make use of opportunities created by technology, mainly by mobile devices. We will focus on providing solutions, not products, and the key to the accomplishment of our goals will be investments in technologies that enable us to serve our clients at any time and in any place throughout the world. In the first six months of 2019, for example, we will implement a technology that makes it possible to provide financing to new clients on the basis of an ID document and a bank statement. The process would be done automatically: from online verification of documents and salary to biometric identification.

The implementation of our strategy will translate into the expansion of our client-related business, which in turn will help us accomplish our financial goals, such as high one-digit annual-average growth of credit volumes in the retail banking segment and the medium one-digit annual-average growth of credit volumes in the institutional banking segment; high one-digit annual-average growth of revenues from client operations; and keeping our ROE above 10 percent in 2019 – 2021, and pushing it above 12 percent at the end of that period.

An extremely important component of Citi Handlowy's strategy for the years to come is a new organizational structure, which is our response to the changing needs of our employees and reflects our new approach to ensuring an effective work environment. In Citi Handlowy, we are implementing the People Strategy, which is aimed, among other things, at introducing significant changes to increase the flexibility of work time and place, strengthening inter-generation dialogue, promoting a culture of acceptance of diversity of our teams, creating new development paths, inter alia by increasing mobility of our employees within the structures of Citi Handlowy and reinforcing the culture of appreciation of everyday achievements and successes of our employees.

The positive impact which Citi Handlowy exerts on the society is as important as the financial aspect of its activities. Our corporate social responsibility initiatives are described in more detail in the "Non-financial information report". That report is an integral part of our annual report as making a maximum positive impact on society is an integral part of our banking DNA, which is confirmed by many awards we have won.

For the 12th time, Citi Handlowy was included in the RESPECT Index – and has been its part continuously since 2009. And in the Responsible Company Ranking 2018 organized by Gazeta Prawna, Citi Handlowy was ranked at the Crystal Level, which involves CSR mature and active companies.
On the occasion of the publication of the Annual Report, I would like to thank our employees for their performance and achievements in 2018. The development strategy of Citi Handlowy is ambitious but I am sure that the team I have the pleasure to lead will manage the task. For myself and on behalf of the entire Management Board, I also want to thank the Members of the Supervisory Board for their contribution and support.

Sincerely

Sławomir S. Sikora

Sławomir S. Sikora
President of the Management Board
Bank Handlowy w Warszawie S.A.

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Independent Auditor's Report to the General Shareholders' Meeting and Supervisory Board of Bank Handlowy w Warszawie S.A.

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Independent Auditor's Report

To the General Shareholders' Meeting and Supervisory Board of Bank Handlowy w Warszawie S.A.

Report on the Audit of the Annual Consolidated Financial Statements

Opinion

We have audited the accompanying annual consolidated financial statements of Bank Handlowy w Warszawie S.A. Group (the "Group"), whose parent entity is Bank Handlowy w Warszawie S.A. (the „Parent Entity"), which comprise:

— the consolidated statement of financial position as at 31 December 2018,

and for the period from 1 January to 31 December 2018:

— the consolidated statement of profit and loss;
— the consolidated statement of comprehensive income;
— the consolidated statement of changes in equity;
— the consolidated statement of cash flows;

and

— additional information including the description of adopted accounting principles and other explanatory information

(the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements of the Group:

— give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union and the adopted accounting policy;
— comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Parent Entity's articles of association.

Our audit opinion on the consolidated financial statements is consistent with our report to the Audit Committee dated 21 March 2019.

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k.

ul. Inflancka 4A, 00-189 Warszawa, tel. +48 (22) 528 11 11, fax +48 (22) 528 10 09, Email kpmg@kpmg.pl, Internet www.kpmg.pl

Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the "NSA"); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089 with amendments) (the "Act on certified auditors"); and
- regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Official Journal of the European Union L 158 from 27 May 2014, page 77 and Official Journal of the European Union L 170 from 11 June 2014, page 66) (the "EU Regulation"); and
- other applicable laws.

Our responsibilities under those standards are further described in the Auditor's Responsibility for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Ethics

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants ("IFAC Code") issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit engagement in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditor and the audit firm remained independent of the Group in accordance with requirements of the Act on certified auditors and the EU Regulation.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

Impairment of amounts due from customers

The carrying amount of amounts due from customers amounted to PLN 21,949 million as at 31 December 2018 and PLN 19,849 million as at 31 December 2017. Impairment losses on amounts due from customers amounted to PLN 63.5 million in 2018 and PLN 103.2 million in 2017 (Notes 13 and 23 of the consolidated financial statements).

Key audit matter	*Our procedures*
Loans and advances to customers are measured at amortized cost less expected credit losses. The procedures to estimate credit losses comprise two major phases – identification of impairment triggers or significant increase of credit risk and measurement of expected credit losses.	Our audit procedures conducted with the support of our internal financial risk management and IT specialists included i.a.: • Assessment of the Group's methodology used for estimating expected credit losses in terms of its compliance with the requirements of applicable financial reporting standards and market practice;

The impairment triggers and triggers indicating significant increase of credit risk are identified mainly on the basis of payment delinquencies, economic and financial standing of the debtor and current probability of default level as compared to the date of initial recognition of a given exposure, while allowances for expected credit losses are estimated individually for specific loans and advances to customers and collectively for homogenous loan portfolios using statistical methods on the basis of risk parameters. Risk parameters such as probability of default (PD), loss given default (LGD) or exposure at default (EAD) are determined for homogenous groups of loan exposures based on historical data taking into account forward looking information on expected macroeconomic conditions. Allowances for credit losses are the best estimate of expected credit losses on loans and advances as at the balance sheet date to be incurred within the next 12 month period or within the lifetime of the exposure. We have considered this area as a key audit matter because of the size of the loan portfolio and the significant impact that estimation of expected credit losses may have on the consolidated financial statements. Furthermore, estimating allowances for credit losses involves certain uncertainty and requires from the Management to use substantial judgment. The main risk area comprises the failure to identify existing impairment triggers and significant increase of credit risk as well as the application of inappropriate data to calculate the parameters of statistical model, which may not adequately reflect the expected credit losses existing as at a given balance sheet date and for loans that are assessed on an individual basis there is a risk of applying inappropriate assumptions regarding recovery scenarios, valuation of collateral or assumed by the Group timing of expected cash flows. Moreover, there is a risk of errors occurring during the impairment allowances calculation process.	• Assessment of the design and implementation and testing operating effectiveness of key internal controls, including general IT system controls, applied in the process of identification of impairment triggers or significant increase in credit risk and estimation of expected credit losses; • Analysis of the structure and dynamics of the loan portfolio including quality ratios and provision coverage (i.e. share of overdue loans, allowance coverage ratio) in order to identify groups of loans with underestimated impairment allowances; • Analysis of appropriateness of the Group's identification of impairment triggers and significant increase in credit risk for the entire population of loans (i.e. overdue status, significant increase in PD, forbearance); • Independent recalculation of expected credit losses for a sample of impaired loans; • Critical assessment of assumptions and input data used for key credit risk parameters, such as PD, LGD and EAD through analysis of results of tests performed by the Group regarding appropriateness of models used for estimating of expected credit losses; • Independent recalculation of selected risk parameters and expected credit losses for a selected sample of exposures; • Assessment of adequacy of provisions for expected credit losses through comparison with losses incurred historically on a given portfolio; • For significant loans and advances to customers assessed individually on the basis of a selected sample – assessment of the appropriateness of identification of significant increase of credit risk and impairment triggers and for impaired assets critical assessment of key assumptions adopted by the Group and independent recalculation of impairment allowances.

Impact of the first-time adoption of International Financial Reporting Standards 9

Total impact of the first-time adoption of IFRS 9 as at 1 January 2018 amounted to PLN 75.6 million and was recognized as a decrease in retained earnings as at that date. The impact referred mainly to a decrease in net carrying amount due from customers by PLN 86.1 million due to recognition of allowances for expected credit losses (Note 2 of the consolidated financial statements).

Key audit matter	*Our procedures*
Implementation of new principles for recognition, classification and measurement of financial instruments in accordance with IFRS 9 *Financial instruments* starting from 1 January 2018 required an estimation of the impact of the new standard first-time adoption on the opening balance as at 1 January 2018 and accounting for the changes in the retained earnings as of that date. Major changes within the classification and measurement of financial instruments required to determine business models as adopted by the Group to manage a given portfolio of financial instruments and to test the characteristics of contractual cash flows to be obtained from the financial instrument in order to determine whether contractual cash flows represent only the repayment of the principal and interest on the outstanding balance. In terms of impairment of financial instruments, implementation of the standard required the use of advanced statistical models in order to measure significant increase of credit risk and to estimate expected credit losses for the loan portfolio over the lifetime of the exposure. We have considered this area to be a key audit matter because application of the new standard required significant changes in business processes, information and reporting systems and obtaining of new data sets to be used for the purpose of financial assets valuation. Assessment whether the classification and measurement criteria are met as well as calculation of expected credit losses required from the Management to use substantial judgement. The main risk areas in terms of the implementation of the new standard comprised appropriate determination of business models for the Group’s financial assets and interpretation of the results of the tests of characteristics of	In addition to the procedures performed in the area of impairment of loan portfolio described in section ‘Impairment of amounts due from customers’ above, our procedures included i.a.: • Assessment of the methodology applied by the Group for the classification and measurement of financial instruments in terms of its compliance with the requirements of applicable financial reporting standards as well as the market practice; • Evaluation of the correctness of assigning financial assets to business models, including analysis of sales of financial instruments made during the period; • Independent testing of the correctness of tests of characteristics of contractual cash flows on a given sample of loan agreements; • Assessment of completeness and appropriateness of disclosures, including those related to the first-time adoption of IFRS 9 and quantitative and qualitative requirements related in particular to credit risk of financial assets.

contractual cash flows as well as estimation of expected credit losses described in more details under 'Impairment of amounts due from customers' section above.

Furthermore, IFRS 9, by amending IFRS 7 *Financial Instruments: Disclosures*, resulted in an extended scope of disclosures required in the consolidated financial statements.

Responsibility of the Management Board and Supervisory Board of the Parent Entity for the consolidated financial statements

The Management Board of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view of the consolidated financial position of the Group and of its consolidated financial performance in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Parent Entity's articles of association and for such internal control as the Management Board of the Parent Entity determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board of the Parent Entity is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Parent Entity either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

According to the accounting act dated 29 September 1994 (Official Journal from 2019, item 351) (the "Accounting Act"), the Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Parent Entity are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the Management Board of the Parent Entity has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Parent Entity;
- conclude on the appropriateness of the Management Board of the Parent Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the consolidated financial statements to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report on the audit of the consolidated financial statements. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Parent Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Parent Entity with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Parent Entity, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the report on activities

Other Information

The other information comprise the information included in the annual report of the Group, except for the consolidated financial statements and our auditor's report ("Other information").

Responsibility of the Management Board and Supervisory Board

The Management Board of the Parent Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the report on activities of Bank Handlowy w Warszawie S.A. and of

Bank Handlowy w Warszawie S.A. Group in 2018 ("Report on activities") and the report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our opinion on the consolidated financial statements does not cover the Other information.

In connection with our audit of the consolidated financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report if the Report on activities was prepared in accordance with applicable laws and the information given in the Report on activities is consistent with the consolidated financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Group included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the consolidated financial statements and to inform whether the Group prepared a separate report on non-financial information.

Opinion on the Report on activities

Based on the work undertaken in the course of our audit of the consolidated financial statements, in our opinion, the accompanying Report on activities, in all material respects:

- has been prepared in accordance with applicable laws, and
- is consistent with the consolidated financial statements.

Furthermore, based on our knowledge about the Group and its environment obtained in the audit of the consolidated financial statements, we have not identified material misstatements in the Report on activities.

Opinion on the statement on corporate governance

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2018, item 757) (the "decree").

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the consolidated financial statements.

Information about the statement on non-financial information

In accordance with the requirements of the Act on certified auditors, we report that the Group has prepared a separate report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act.

We have not performed any assurance procedures in relation to the separate report on non-financial information and, accordingly, we do not express any assurance conclusion thereon.

Report on other legal and regulatory requirements

Information on compliance with prudential regulations

The Management Board of the Parent Entity is responsible for the Group's compliance with the applicable prudential regulations defined in separate laws, in particular for the appropriate determination of the capital ratios.

Our responsibility was to inform in our auditor's report whether the Group complies with the applicable prudential regulations defined in separate laws, in particular whether the Group appropriately determined the capital ratios presented in note 49 "Risk Management".

The audit objective was not to express an opinion on the Group's compliance with the applicable prudential regulations and therefore we do not express such an opinion.

Based on our audit of the consolidated financial statements of the Group, we inform that we have not identified any instances of non-compliance, in the period from 1 January to 31 December 2018, of the Group with the applicable prudential regulations, defined in separate laws, in particular with respect to the determination of the capital ratios as at 31 December 2018, that could have a material impact on the consolidated financial statements.

Statement on services other than audit of the financial statements

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

Services other than audit of the consolidated financial statements, which were provided to the Group in the audited period are listed in note XII of the report on activities.

Appointment of the audit firm

We have been appointed for the first time to audit the annual consolidated financial statements of the Group by resolution of the Supervisory Board dated 22 March 2017. Our period of total uninterrupted engagement is 2 years, covering the periods ended 31 December 2017 to 31 December 2018.

On behalf of audit firm
KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546

Signed on the Polish original

Justyna Zań

Key Certified Auditor
Registration No. 12750
Limited Partner, Proxy

Signed on the Polish original

Stacy Ligas

Member of the Management Board
of KPMG Audyt Sp. z o.o., entity which is the
General Partner of KPMG Audyt spółka
z ograniczoną odpowiedzialnością sp. k.

Warsaw, 21 March 2019

Selected financial data

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2018	2017	2018	2017
Interest and similar income	1,304,514	1,351,410	292,899	318,376
Fee and commission income	638,961	662,958	149,748	156,185
Profit before tax	828,668	707,080	194,208	166,579
Net profit	638,852	535,566	149,723	126,173
Total comprehensive income	730,458	740,643	171,192	174,487
Increase/decrease of net cash	6,960,393	(158,297)	1,631,253	(37,293)
Total assets	49,304,714	43,037,596	11,466,213	10,318,539
Amounts due to banks	1,402,233	1,568,376	326,101	376,028
Amounts due to customers	38,334,345	32,136,698	8,914,964	7,704,979
Shareholders' equity	7,056,750	6,938,883	1,641,105	1,663,642
Share capital	522,638	522,638	121,544	125,306
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	54.01	53.11	12.56	12.73
Total capital adequacy ratio (in %)	16.8	17.9	16.8	17.9
Earnings per share (PLN/EUR)	4.89	4.10	1.15	0.97
Diluted net earnings per share (PLN/EUR)	4.89	4.10	1.15	0.97
Declared or paid dividends per share (PLN/EUR)*	3.74	4.11	0.87	0.99

* *The presented ratios are related to declared dividend from the appropriation of the 2018 profit and dividend paid in 2018 from the appropriation of the 2017 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 2018 – PLN 4.3000 as at 31 December 2017: PLN 4.1709); 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 2018 – PLN 4.2669 (in 2017: PLN 4.2447).*

The Annual Consolidated Financial Statements of The Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2018

March 2019

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Consolidated income statement

For the period (PLN'000)	Note	2018	2017*
Interest income	4	1,249,769	1,276,762
Similar income	4	54,745	74,648
Interest expense and similar charges	4	(196,940)	(269,263)
Net interest income	**4**	**1,107,574**	**1,082,147**
Fee and commission income	5	638,961	664,602
Fee and commission expense	5	(89,013)	(83,941)
Net fee and commission income	**5**	**549,948**	**580,661**
Dividend income	**6**	**9,533**	**9,428**
Net income on trading financial instruments and revaluation	**7**	**364,204**	**346,275**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income[a]		**112,631**	**35,772**
Net gain/(loss) on equity and other instruments measured at fair value through income statement[b]		**6,522**	**3,377**
Net gain on hedge accounting	**8**	**3,682**	**10,261**
Other operating income	9	35,243	32,094
Other operating expenses	9	(29,342)	(31,538)
Net other operating income and expense	**9**	**5,901**	**556**
General administrative expenses	**10**	**(1,108,247)**	**(1,118,653)**
Depreciation expense	**11**	**(71,384)**	**(73,092)**
Profit/loss on sale of other assets	**12**	**(813)**	**10,929**
Net impairment on financial assets and provisions for contingent commitments[c]	**13**	**(63,511)**	**(103,189)**
Operating profit		**916,040**	**784,472**
Share in net profits/(losses) of entities valued at equity method		**(22)**	**242**
Tax on some financial institutions		**(87,350)**	**(77,634)**
Profit before tax		**828,668**	**707,080**
Income tax expense	**14**	**(189,816)**	**(171,514)**
Net profit		**638,852**	**535,566**
Including:			
Net profit attributable to the Bank's shareholders			535,566
Weighted average number of ordinary shares (in pcs)	15	130,659,600	130,659,600
Net earnings per share (PLN)	15	4.89	4.10
Diluted net earnings per share (PLN)	**15**	**4.89**	**4.10**

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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

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

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

Explanatory notes on pages 23-105 are an integral part of the annual consolidated financial statements.

Consolidated statement of comprehensive income

For the period (PLN'000)	Note	2018	2017
Net profit		**638,852**	**535,566**
Other comprehensive income, that might be subsequrently reclassified to profit or loss:			
Change in value of financial assets measured at fair value through other comprehensive income[d]	16	94,286	205,725
Currency translation differences		162	(314)
Other comprehensive income, that cannot be subsequrently reclassified to profit or loss			
Net actuarial profits/(losses) on specific services program valuation	16	(2,842)	(334)
Other comprehensive income net of tax		**91,606**	**205,077**
Total comprehensive income		**730,458**	**740,643**
Including:			
Comprehensive income attributable to the Bank's shareholders		730,458	740,643

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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

Explanatory notes on pages 23-105 are an integral part of the annual consolidated financial statements.

Consolidated statement of financial position

As at (PLN'000)	Note	31.12.2018	31.12.2017
ASSETS			
Cash and balances with the Central Bank	17	7,272,193	462,126
Amounts due from banks	18	1,333,977	836,774
Financial assets held-for-trading	19	2,237,076	2,179,925
Debt financial asstes measured at fair value through other comprehensive income[e]	20	14,241,363	17,439,439
Equity investments valued at equity method	21	10,399	10,664
Equity and other instruments measured at fair value through income statementf	22	48,768	26,500
Amounts due from customers	23	21,949,014	19,849,033
Tangible fixed assets	24	364,261	376,775
Intangible assets	25	1,418,794	1,352,413
Current income tax receivables		1,744	667
Deferred income tax asset	27	204,207	175,904
Other assets	28	222,918	325,448
Non-current assets held-for-sale	29	-	1,928
Total assets		**49,304,714**	**43,037,596**
LIABILITIES			
Amounts due to banks	30	1,402,233,	1,568,376
Financial liabilities held-for-trading	19	1,609,382,	1,353,215
Hedging derivatives		-	50,191
Amounts due to customers	31	38,334,345	32,136,698
Provisions	32	29,984	18,300
Current income tax liabilities		66,297	52,340
Other liabilities	33	805,723	919,593
Total liabilities		**42,247,964**	**36,098,713**

EQUITY			
Share capital	35	522,638	522,638
Supplementary capital	35	3,003,290	3,003,969
Revaluation reserve	35	84,372	(9,118)
Other reserves	35	2,883,838	2,895,598
Retained earnings		562,612	525,796
Total equity		**7,056,750**	**6,938,883**
Total liabilities and equity		**49,304,714**	**43,037,596**

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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

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

Explanatory notes on pages 23-105 are an integral part of the annual consolidated financial statements.

Consolidated statement of changes in equity

PLN'000	Share capital	Supple-mentary 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[g]			94,286	-	-	-	94,286
Net actuarial profits/(losses) on specific services 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**

PLN'000	Share capital	Supple-mentary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2017	**522,638**	**3,003,082**	**(214,843)**	**2,885,044**	**594,529**	**-**	**6,790,450**
Total comprehensive income, including:	-	-	205,725	(648)	535,566	-	740,643
Net profit	-	-	-	-	535,566	-	535,566
Currency translation differences from the foreign operations' conversion	-	-	-	(314)	-	-	(314)
Net valuation of available-for-sale financial assets	-	-	205,725	-	-	-	205,725
Net actuarial profits/(losses) on specific services programvaluation	-	-	-	(334)	-	-	(334)
Dividends	-	(129)	-	-	(592,081)	-	(592,210)
Transfer to capital	-	1,016	-	11,202	(12,218)	-	-
Balance as at 30 June 2017*	**522,638**	**3,003,969**	**(9,118)**	**2,895,598**	**525,796**	**-**	**6,938,883**

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

** *Impact of the accounting principles amendments resulting from implementation of IFRS 9 was shown in note 3.*

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

Explanatory notes on pages 23-105 are an integral part of the annual consolidated financial statements.

Consolidated cash flow statement

PLN'000	2018	2017
A. Operating activities		
I. Net profit	**638,852**	**535,566**
II. Adjustments:	**5,963,842**	**(1,008,486)**
Current and deferred income tax recognized in income statement	189,816	171,514
Share in net profits/(losses) of entities valued at equity method	22	(242)
Depreciation expense	71,384	73,092
Net impairment due to financial assets value loss	72,966	99,673
Net provisions (recoveries)	(10,904)	3,167
Net interest income	(1,107,574)	(1,082,147)
Dividend income	(9,533)	(9,428)
Profit/loss on sale of fixed assets	823	(10,993)
Net unrealized exchange differences	(8,800)	7,844
Equity and other investment measured at fair value though the income statement	(6,522)	-
Other adjustments	3,004	4,191
Change in amounts due from banks	(348,629)	(204,204)
Change in amounts due from customers	(2,278,685)	(1,082,118)
Change in debt securities measured at fair value through other comprehensive income[h]	3,199,537	1,743,917
Change in equity and other instruments measured at fair value through income statement[i]	-	635
Change in financial assets held-for-trading	(58,011)	1,581,754
Change in derivative securities	-	12,244
Change in other assets	101,633	(32,787)
Change in amounts due to banks	(130,863)	(650,236)
Change in amounts due to customers	6,194,610	(1,797,799)
Change in liabilities held-for-trading	256,167	45,417
Change in amounts due to hedging derivatives	(50,191)	10,294
Change in other liabilities	(116,408)	107,726
Interest received	**1,439,811**	**1,499,283**
Interest paid	**(193,814)**	**(271,326)**
Income tax paid	**(208,116)**	**(132,508)**
III. Net cash flows from operating activities	**7,640,575**	**622,529**
B. Investing activities		
Inlows		
Disposal of tangible fixed assets	38	33,613
Disposal of fixed assets/liabilities held-for-sale	1,068	-
Received dividends	9,260	9,428
Other inflows connected with investing activities	-	50
Outflows		
Purchase of tangible fixed assets	(17 813)	(92 288)
Purchase of intangible assets	(109 313)	(38 967)
Net cash flows from investing activities	**(116 760)**	**(88 164)**

C. Financing activities		
Inflows		
Drawing of long-term loans from financial sector	-	31,292
Outflows		
Paid dividends	(537,011)	(592,213)
Repayment of long-term loans from financial sector	(35,936)	(119,268)
Net cash flows from financing activities	**(572,947)**	**(680,189)**
D. Exchange rates differences resulting from cash and cash equivalent calculation	**9,525**	**(12,473)**
E. Net increase/(decrease) in cash and cash equivalent	**6,960,393**	**(158,297)**
F. Cash and cash equivalent at the beginning of reporting period	**514,585**	**672,882**
G. Cash and cash equivalent at the end of reporting period (see note 45)	**7,474,978**	**514,585**

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

[h)] *Corresponds to the 'Change in debt securities available-for-sale' in accordance with IAS 39.*

[i)] *Corresponds to the'Change in equity investment available-for-sale' in accordance with IAS 39.*

Explanatory notes on pages 23-105 are an integral part of the annual consolidated financial statements.

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

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

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

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

The parent entity and the entities of the Group were set up for an unspecified period of time.

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

The Group consists of the Bank and the following subsidiaries:

Subsidiaries	Registered office	% of share capital/votes at the General Meeting	
		31.12.2018	31.12.2017
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100	100
Handlowy-Leasing Sp. z o.o.	Warsaw	100	100
Handlowy Investments S.A.	Luxembourg	100	100
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100	100
Entities accounted for under the equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100	100

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

The Bank is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients on domestic and foreign markets. Additionally, the Group operates in 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").

Financial information on subsidiaries, 31.12.2018

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Assets	Liabilities	Equity	Revenues	Profit/ loss
Subsidiaries fully consolidated									
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	18,393	306	18,097	257	304
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 Sp. z o.o.	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.

Financial information on subsidiaries 31.12.2017

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	23,134	704	22,430	865	(678)
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100	18,298	429	17,869	432	61
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100	433,070	320,816	112,154	73,538	14,669
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100	Equity in liquidation				

* *direct share.*

Other entities

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Assets	Liabilities	Equity	Revenues	Profit/ Loss	Zysk
HANDLOWY-INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100	914	11,118	41	11,077	446	242

* *direct share.*

The explanation of indirect relationships:

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

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	414	23,134	704	22,430	865	(678)

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the audited financial statements prepared as at 28 February 2018, which was the entity's balance sheet date.

The financial data of a subsidiary that is not fully consolidated are immaterial to the consolidated financial statements.

As at 31 December 2018, the financial data amounted to 0.02% of the Group's assets (as at 31 December 2017: 0.03%) and 0.03% of the Group's net profit (as at 31 December 2017: 0.05%), excluding elimination of transactions within the Group.

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 22 March 2019. 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 22 March 2019. 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 2018 and the comparable financial data are presented as at 31 December 2017.

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 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 assesments 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 2018 of IFRS 9 'Financial instruments' and IFRS 15 'Consumer contract income, 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.

Standards and interpretations approved but not obligatory that may have an impact on financial statements of the Group:

- IFRS 16 'Leasing', endorsed by the Euro pean 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 instrumets' 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,
- 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,
- amendments to IAS 28 'Investments in associates and joint ventures' regarding measurement of the long-term share in affiliate companies and joined ventures in accoradance with IFRS 9 'Financial instruments' – the amendment won't have a significant impact on the financial statement.

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,
- 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,
- 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,
- 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,
- IFRS 3 'Business combinations' amendment – introducing a clarification of the definition of a project that helps to distinguish between acquisitions as a group of assets or a project,
- IAS 1 '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.

will not impact the financial statement significantly.

Standards applicable from 1 January 2018:

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

IFRS 9 "Financial instruments"

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

Classification and measurement of financial instruments

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

- Standard introduces three financial instruments categories:
  - financial assets measured at amortized cost,
  - financial assets measured at fair value through other comprehensive income,
  - financial assets measured at fair value through profit and loss.
- Group classifies financial assets to specific categories on initial recognition considering 2 criteria:
  - **business model** for management of assets, which determines, whether cash flows will result from collecting contractual cash flows, selling financial assets or both
  - **features of contractual cash flows** for an asset, which is estimated by using SPPI test (solely payment of principal and interest), under which it is determined if contractual cash flows are solely payments of principal and interest on the principal amount. The test is passed if above-mentioned cash flows are consideration for the time value of money, credit risk, other basic lending risks (for example liquidity risk), costs (for example administration) associated with holding the financial asset for a particular period of time and profit margin.

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

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

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

The Group identifies relevant and irrelevant modifications for contracts at amortized cost, which are explained in the later part of the note.

Business model

In respect to business model, based on current and planned management approach to financial asset portfolios in respect of method of cash flow collection from groups of assets, Group originates loans and other financing instruments so far classified as loan and receivables under IAS 39 in order to collect principal and interest. Loan sales are rare and concern deteriorated exposures. As a result, the Group did not change in the valuation of instruments in this portfolio as compared to IAS 39 and they are measured at amortized cost.

Debt instruments in held for trading portfolio are managed under business model of frequent sales and purchases with expectations to take advantage of short-term market fluctuations and profit making patterns. As a result Group measures such instruments at fair value through profit or loss similar to IAS 39 regulation.

Debt instruments available for sale under IAS 39 are managed under business model of contractual cash flows and sales, so according to IFRS 9 they are classified as assets measured at fair value through other comprehensive income.

Contractual cash flows features

Group analyzed thoroughly contractual stipulations and practices in respect of consideration formulas in order to conclude whether contractual cash flows are solely payments of principal and interest (SPPI test). In result, in specific cases using benchmark test (analysis of mismatch of interest rate type and its reset frequency), Group, substantially, has not identified financial assets that failed SPPI test.

However, Group is in the possession of credit cards for which interest formula contains a multiplier. For credit cards interest rate is based on analysis of similar products and it reflects consideration for time value of money, credit risk related with unpaid principal within specified time period, and other basic lending risks, as well as profit margin. Rates used by Group with multiplier higher than 1 results from current and past level of maximum acceptable interest set by law. Considering the above, Group presents such exposures as measured at amortized cost. The Group changed contract documentation to establish documentation for current customers, internal maximum rate which applies and is used regardless of statutory rate and restrictive to the variability of contract cash flows in accordance with IFRS 9.

As a result of above analysis, the Group did not identify changes in the way of valuation of financial assets resulting from contractual cash flows features.

Equity and other investments measured at fair value though the profit and loss

According to IFRS 9 minority shareholdings shall be measured at fair value. IFRS 9 provides that further changes in fair value, after initial application, are recognized in profit and loss. However, it allows an irrevocable option to record such changes in OCI without recycling to profit and loss. If such option is elected, dividends are generally recorded in profit and loss. Group decided to record changes in fair value in profit and loss.

Hedge accounting

In hedge accounting IFRS 9 extends the scope of instruments than can be considered as hedged or hedging instruments. The condition of hedge accounting application is economic relation between hedging instrument and hedged item without obligation to measure hedge effectiveness retrospectively. IFRS 9 also allows temporary use of hedge accounting covered by IAS 39 „Financial instruments: recognition and measurement" and Group followed that approach.

Impairment

Expected credit loss impairments as per IFRS 9 are established with exposure classification into one of the 3 Stages:

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

As a rule, all exposures extended to newly acquired clients (with the exception of POCI assets), are classified as exposures in Stage 1.

As part of customer risk analysis, identification of a significant increase in credit risk and assessment of premises and evidence of impairment are made, taking into account existing and future events, including macroeconomic environment.

Institutional Clients Group

ICG Clients are assessed individual based on the consideration of presumption that there is a significant increase in credit risk and/or presumptions of credit loss in order to assign relevant internal classification / classify to relevant Stage as per IFRS 9. Assessment of the presumptions that there is a significant increase in credit risk and/or presumptions of credit loss are conducted on continuous basis as per early warning system process and internal classification. Internal classification process is a multifactor and comprehensive credit risk analysis and is a supporting element of portfolio monitoring and corrective action plan management.

In order to assess if there has been an increase in credit risk 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.

Generally, the amendment of customer classification is determinining factor of transfer among Stages. Classification of customer to category – Under supervision is treated as significant slowdown of risk from the moment of initial recognition.

The level of external classification	Classification to Stage
Normal	Stage 1
Normal (internal observation list)	Stage 1
Under supervision	Stage 2
Performing below standard	Stage 2
Non-performing below standard	Stage 3
Questionable	Stage 3
Executed	Stage 3

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 (eg. registered dates and amounts of payments, data from the credit bureau, balance and loan utilization, client's financial data, results of trends analysis of the industry in which the client operates, results of customer's inspections including the company's loan needs or changes in the company's management);
- Quantitative information (including among others);
- Expected exposure life period;
- Occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, (assuming that those changes does not imply deterioration in future payment flows).

Assignment to stage 1 & 2 is based on the internal classification process, which takes into account, apart from the quantitative factor (PD / rating changes) wide range of qualitative factors – therefore no PD threshold has been set above which exposure is automatically classified into Stage 2.

Stage 1 and 2 impairment allowances for credit exposures and provisions for balance sheet credit exposures is determined monthly for each customer in order to calculate, maintain and report information on impairment and IFRS 9 provisions for ICG clients exposure. The algorithms used depend on the assignment of the client to the Stage in accordance with IFRS 9 and the method of managing the given Client (Clients managed on the basis of classification vs. clients managed on a days past due basis). If the Group has sufficient data to create homogeneous groups of exposure, it measures them in a group approach, in particular exposures managed on a past due basis are valued in accordance with the group approach.

Stage 3 exposures are assigned if one of the following objective evidence of impairment occurs:

- decrease in client's internal rating to the equivalent of S&P CCC-;
- delay in payment equal to 90 days or more;
- significant financial difficulties of the client;
- reduction of the client credit rating by an accepted by the Bank External Credit Assessment Institution;
- breach of contract conditions, e.g. delay in interest or principal payments;
- occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, 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;
- 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.

Stage 3 losses in respect of impairment / loan exposure reserve are recognized and calculated on the basis of the current value of projected cash flows expected in the loan period. Losses are calculated based on individual cash flow forecasts resulting from, among others, repayment by the borrower or collateral enforcement. The projected cash flows concern repayments of both capital and interest.

For the purpose of ECL calculation, the Group takes into account the collaterals. Acceptable forms of collateral include primarily mortgages, inventories and receivables. If the value of collateral is not included in the ECL calculation methodology, the provision would increase by 20%.

Global Consumer Banking

In the case of retail exposures, the level of write-downs is set at the level of individual loan exposures and then aggregated to the level of product portfolios. The level of the provision related to credit risk reflects the expected amount of credit losses over a time horizon depending on the exposure reporting Stage. In the range covered by the impairment model, there are:

- Cash loans,
- Mortgage loans,
- Credit cards together with related products (EPP, LOP, ALOP) and
- Renewable credit lines.

The rules for classifying exposures to the Stages are based on the credit risk management processes existing at the Group, in particular, as a rule, on a cyclical risk analysis of the client. It includes quantitative criteria related to determining the probability of customer default (PD) within the credit products held and quality criteria. The 12-th months PD value is set at the customer level based on a set of statistical models. These are scoring models: demographic, behavioral and data from the Credit Information Bureau (BIK). These models work on the basis of the so-called integration logic, whose task is to provide the best 12-th months PD value forecast for a set of partial model values available for a given client. Such PD is then scaled, for the purpose of Stage 2 to residual PD Life Time based on assumed survival distribution.

In order to assess whether there was a significant increase in credit risk, the Group periodically:

- as part of the change of the default risk analysis process for a given credit exposure, compare the current assessment of default risk (actual residual PD) for the credit exposure with the default risk assessment made at the time of initial recognition (expected at that moment of time residual PD for the current age of loan). Assignment to the Stage is taken if the increase of residual PD for particular credit products in the horizon of life exposition of multiplier from 1.7x to 5.1x depending on the kind of product;
- in addition, assessment includes qualitative reasons based on the current length of the credit product overdue period (Days Past Due criterion), the soft restructuring activities carried out and the fact that information about the probability of default is not available.

In the case of installment exposures, this is the period to the contractual maturity date. For revolving exposures, the contractual maturity is not specified, in substitution the so-called behavioral maturity is calculated, resulting from the empirical estimation of the life of the credit product.

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

First application of IFRS 9

Disclosures of the impact of the adoption of IFRS 9

The Group decided to use the IFRS 9 records, which enable dispensing with the obligation to transform comparative data for the previous periods in the case of changes resulting in classification, valuation and impairment. At the same time the Group made changes in financial statement in order to adjust financial data presentation to new categories implemented by IFRS 9. Differences in the balance sheet value of assets and financial liabilities resulting from IFRS 9 were included as the part of previous year profit and revaluation reserve in equity as at 1 January 2018.

The impact of IFRS 9 on classification and measurement of financial assets is given below as at 1.01.2018 (data in thousands PLN):

Consolidated financial statement's line as at 31.12.2017	Consolidated financial statement's line as at 1.01.2018	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39	IFRS 9 implementation impact	Carrying amount IFRS 9
Assets	**Assets**					
Amounts due from banks and customers	Amounts due from banks and customers	Amortised cost	Amortised cost	20,685,807	(87,360)	20,598,447
Equity investments available-for-sale	Equity and other investments measured at fair value through income statement	Purchase price less impairment	Fair value through profit and loss	26,500	16,064	42,564
Deferred income tax asset	Deferred income tax asset	-	-	175,904	31,295	207,199
Total assets				**20,888,211**	**(40,001)**	**20,848,210**

Consolidated financial statement's line as at 31.12.2017	Consolidated financial statement's line as at 1.01.2018	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39	IFRS 9 implementation impact	Carrying amount IFRS 9
Liabilities	**Liabilities**					
Provisions for granted contingent commitments	Provisions for granted contingent commitments	Amortised cost	Amortised cost	12,789	22,886	35,675
Current income tax liabilities	Current income tax liabilities	-	-	52,340	12,693	65,033
Total liabilities				**65,129**	**35,579**	**100,708**
Group's Capital				**6,938,883**	**(75,580)**	**6,863,303**

The total impact of adopting of IFRS 9 on the Group's capital is negative and amounts to PLN 75,580 thousand.

In connection with review of verification to the exposition classification for selected corporate customers to the appropriate stages of impairment. The Group estimated the impact of adopting IFRS 9 in comparison to the Consolidated Financial Report for 2017. As a result of amendment of the estimation, the Group's capital was minimized by PLN 13,989 thousand (including tax effect) in comparison to the Consolidated Financial Report for 2017.

The impact of application of IFRS 9 for the first time results mainly from:

- Change of impairment calculation for financial assets and contingent liabilities from the model of losses incurred prior to 1 January 2018 to the model of expected losses, described in detail above
- Changes of classification and measurement of minority equity instruments, which according to IFRS 9 requirements were classified to measure them at fair value through financial result profit and loss. Before the IFRS 9 adoption, the Group classified minority shareholdings as Equity investment available-for-sale and measured them at cost decreased by impairment losses.

The total negative impact of the IFRS 9 standard calculated as of January 1 2018 on Tier 1 and TCR is negative 26 basis points.

The Group decided that for the needs of capital adequacy assessment, based on Article 1 paragraph 9 of the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending the Regulation (EU) 575/2013, it will not adopt the transition period in respect of IFRS 9 impact and it has chosen the one-off recognition of the impact of IFRS 9 implementation on own funds.

Additional disclosures related with initial application of IFRS 9

Disclosures of the impact of the adoption of IFRS 9 as at 1 January 2018 are given below.

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at the time of the first application of IFRS 9 are compared as follows.

PLN '000

Consolidated financial statement's line as at 31.12.2017	Consolidated financial statement's line as at 1.01.2018	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39	Carrying amount IFRS 9
Financial assets	**Financial assets**				
Cash and balances with the Central Bank	Cash and balances with the Central Bank	Amortised cost	Amortised cost	462,126	462,126
Amounts due from banks	Amounts due from banks	Amortised cost	Amortised cost	836,774	835,538
Financial assets held-for-trading	Financial assets held-for-trading	Fair value through profit and loss	Fair value through profit and loss (mandatory)	2,179,925	2,179,925
Debt securities available for sale	Debt financial assets measured at fair value through other comprehensive income	Fair value through other comprehensive income	Fair value through other comprehensive income	17,439,439	17,439,439
Equity investments	Equity instruments measured at fair value through income statement	Purchase price less impairment	Fair value through profit and loss	26,500	42,564
Amounts due from customers	Amounts due from customers	Amortised cost	Amortised cost	19,849,033	19,762,909
Other assets (financial)	Other assets (financial)	Amortised cost	Amortised cost	263,119	263,119
Financial liabilities	**Financial liabilities**				
Amounts due to banks	Amounts due to banks	Amortised cost	Amortised cost	1,568,376	1,568,376
Financial liabilities held-for-trading	Financial liabilities held-for-trading	Fair value through profit and loss	Fair value through profit and loss (mandatory)	1,353,215	1,353,215
Hedging derivatives	Hedging derivatives	Fair value through profit and loss	Fair value through profit and loss (mandatory)	50,191	50,191
Amounts due to customers	Amounts due to customers	Amortised cost	Amortised cost	32,136,698	32,136,698
Provisions for granted contingent commitments	Provisions for granted contingent commitments	Amortised cost	Amortised cost	12,789	35,675

Changes in presentation of income statement connected with the adoption of IFRS 9 are given below. Changes refer to selected income statement's lines and these are changes of nomenclature without impact on presented values.

PLN '000

Consolidated income statement's line for 2017	Consolidated income statement's line for 2018	Amount - IAS 39	Amount - IAS 39
		2017	2018
Net gain on debt investment securities available-for-sale	Net gain on debt investment financial assets measured at fair value through other comprehensive income	35,772	112,631
Net gain on capital investment instruments available-for-sale	Net gain on equity and other investments measured at fair value through profit an loss	3,377	6,522
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	Net impairment on financial assets and provisions for contingent commitments	(103,189)	(63,511)

The following table presents the reconciliation of the carrying amounts of financial assets by category of measurement under IAS 39 with the carrying amounts of these items according to the category of their valuation under IFRS 9, on the date of the first application of IFRS 9:

PLN '000	Measurement category IAS 39	Reclassifications	Measurements	Measurement category MSSF 9
Financial assets				
Amortised cost				
Amounts due from banks				
Opening balance	836,774			
Measurement		-	(1,236)	
Closing balance				835,538
Amounts due from customers				
Opening balance	19,849,033			
Measurement		-	(86,124)	
Closing balance				19,762,909
Available-for-sale				
Debt securities				
Opening balance	17,439,439			
Reclassification to fair value through other comprehensive income		(17,439,439)	-	
Measurement		-	-	
Closing balance				-
Equity investments and others				
Opening balance	26,500			
Fair value through profit and loss		(26,500)	-	
Measurement		-	-	
Closing balance				-
Fair value through other comprehensive income				
Debt securities				
Opening balance	-			
Reclassification from available for sale		17,439,439	-	
Measurement		-	-	
Closing balance				17,439,439
Fair value through profit and loss				
Equity investments and others				
Opening balance	-			
Reclassification from available for sale		26,500	-	
Measurement		-	16,064	
Closing balance				42,564
Financial liabilities				
Provisions for granted contingent commitments				
Opening balance	12,789			
Measurement		-	22,886	
Closing balance				35,675

'Measurement' in the above table relates to the increase of allowances connected with adopting model of expected losses, in accordance with IFRS 9, for amounts due to bank and customers in total amount of PLN 87,360 thousand and for contingent commitments in amount of PLN 22,886 thousand.

Furthermore, for equity investment in the line of measurement, the Group recognized the gap among book value in accordance with IAS 39 and value in accoradance with IFRS 9 using valuation at fair value.

Moreover, the Group accomplished reclassification of financial assets to the new categories required by IFRS 9. In particular, reclassification relates to portfolio of debt securites available-for-sale to the category measured at fair value through the other comprehensive income and equity investment classified previously as available-for-sale to the category measured at fair value through the income statement.

In accordance with Transition Resource Group for Impairment of Financial Instruments the value of receivables in Stage 3 shall be presented increased by accrued contract interest in total amount of PLN 433,123 thousand. The result of this presentation of receivables is also the growth of loan provisions by the same amount. This change had no influence on total net value of receivables in Stage 3 and also on own funds as at the date of transition to IFRS 9, 1 January 2018.

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 and provisions calculated in accordance with IAS 37 to the opening balance of expected credit losses in accordance with IFRS 9:

PLN '000	Impairment allowance IAS39/IAS 37	Reclassifications	Measurements	Impairment allowance IFRS 9
Measurement category				
Loans and advances (IAS 39)/ Amortised cost (IFRS 9)				
Amounts due from banks	1,111		1,236	2,347
Amounts due from customers	587,783	(5,178)*	86,124	668,729
	588,894	**(5,178)**	**87,360**	**671,076**
Financial assets avaible for sale (IAS 39)/ Financial assets at fair value through profit and loss (IFRS 9)				
Other equity investments	4,250	(4,250)	-	-
	4,250	**(4,250)**	**-**	**-**
Financial and guarantees liabilities granted				
Letters of credit	179	-	100	279
Guarantees granted	2,869	-	3,100	5,969
Credit lines granted	9,741	-	19,686	29,427
	12,789	**-**	**22,886**	**35,675**
Provisions (IAS 37)	**5,511**	**-**	**-**	**5,511**
Total	**611,444**	**(9,428)**	**110,246**	**712,262**

* *The item 'Reclassifications' is connected with the definition change of gross carrying amount to IFRS 9 and includes the difference between impairment allowance established for accrued interest from receivables with recognized impairment to the moment of impairment declaration IAS 39 and the value of allowance for these interest IFRS 9. After adoption of IFRS 9, these interest provide the gross carrying amount with the increase of allowance by the same amount.*

IFRS 15 „Revenue from contracts with customers"

On 29 October 2016 IFRS 15 "Revenue from contracts with customers" was endorsed for use in the European Union effective 1 January 2018, replacing IAS 18 "Revenue".

The standard introduces the obligation to use the sequence indicated below in the process of recognizing revenue from contracts with customers, specifically, some commissions recognized by the Group:

1. Identifying the contract with a customer- Group shall account for a contract with a customer that is within the scope of IFRS 15 only when all of the following criteria are met:
   a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
   b) the Group can identify each party's rights regarding the goods or services to be transferred;
   c) the Group can identify the payment terms for the goods or services to be transferred;
   d) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
   e) it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.
2. Identifying performance obligations.

The Group shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

a) good or service (or a bundle of goods or services) that is distinct; or

b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

3. Determining the transaction price.

The Group shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. When determining the transaction price, the Group shall consider the effects of variable consideration, time value of money in case of the existence of a significant financing component in the contract, non-cash consideration, consideration payable to a customer as well as estimates.

4. Allocating the transaction price to performance obligations to identify amounts to be recognized as revenue.

The Group allocates the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

The stand-alone selling price is the price at which Group would sell a promised good or service separately to a customer.

If a stand-alone selling price is not directly observable, Group shall estimate the stand-alone selling price at an amount that would result in the allocation of the transaction price based on adjusted market assessment approach, expected cost plus margin approach and residual approach.

5. Revenue recognition.

The Group recognises revenue when (or as) it satisfies the performance obligation by transferring a promised good or service to a customer. Transfer of a promised good or service is when the customer obtains control of the good or service.

The basic criteria for transferring control of a good or service are:

a) Group's present right to payment for the asset or service,

b) The customer has legal title to the asset,

c) The Group has transferred physical possession of the asset or performed the service,

d) The customer has the significant risks and rewards of ownership of the asset or service,

e) The customer has accepted the asset or the service.

Revenue is recognised over time if one of the following criteria is met:

a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the Group performs;

b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

c) the Group's performance does not create an asset with an alternative use to it and Group has an enforceable right to payment for performance completed to date.

In other circumstances, revenue is recognized immediately.

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

a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

c) the Group expects to recover the costs.

Costs recognized as an asset are recognized in the profit and loss according to the manner in which revenue is recognized as performance obligation is satisfied by the Group.

In the process of implementation of the standard, the Group has not identified differences in the approach to revenue recognition in relation to IAS 18 effective until the end of 2017. Most of the Group's revenues are recognized using the effective interest rate method, in accordance with the provisions of IFRS 9. In case of the Group, IFRS 15 applies to part of commissions not related to financial instruments. The revenue recognition method for these commissions complies with the regulations of the new standard and in case of one-off services, revenue is recognized at the time the service is performed, and for services provided over time revenue is recognized using the straight-line method. The Group has not identified significant costs necessary to obtain contracts that would have to be amortized over time.

The impact of adoption IFRS 15 'Revenue from Contracts with Customers' was irrelevant.

IFRS 16 „Leases"

On 1 January 2019 the Group adopted IFRS 16 "Leases" (hereafter referred to as "IFRS 16").

The new standard relates to all leasing contracts 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 inception of each lease contract 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 such as office equipment.

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

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

The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, lessee's incremental borrowing rate is used. 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.

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 a date when underlying asset available for use by a lessee. Interest expense resulting from a lease liability is recognized in profit and loss during lease in the amount that produces 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 accordance with the transitional provisions included in IFRS 16, when adopting the new standard, the Group as a lessee opted to follow a modified retrospective 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 liability).

Impact on statement of financial position

As at initial application of IFRS 16, i.e. 1 January 2019, the Group recognized new asset items, mainly related to right-of-use of real estate linked to the Group's branches as well as perpetual usufruct of land. IFRS initial application resulted in an increase in Group's assets and liabilities by PLN 146,0 million (equivalent of 0.3% of Group's total assets as at 31 December 2018).

Impact on statement of financial performance

IFRS 16 changes the accounting of leases in profit and loss accounts by replacing rental costs by depreciation and interest expense and the timing of cost recognition - under IFRS 16 cost recognition will be faster 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.

Impact on capital adequacy

Due to the inclusion of lease contracts in the Group's balance sheet as at 1 January 2019, the total amount of risk exposures increased, and thus the Group's total capital ratio decreased by 9 basis points.

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 2018	31 December 2017
1 USD	3.7597	3.4813
1 CHF	3.8166	3.5672
1 EUR	4.3000	4.1709

Financial assets and liabilities

Classification

After implementation of IFRS 9 Group classifies financial instruments to the following categories:

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

Financial assets measured at fair value through profit and loss

The category comprises:

1) financial assets, that were classified neither as measured at amortized cost nor as measured at fair value through other comprehensive income
2) financial assets classified at initial recognition as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases
3) minority shareholdings

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

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

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

Financial assets measured at amortized cost (loans and receivables)

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

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

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

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

The Group 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 note 23 'Amounts due from customers'. The value of credit provisions is increased by the same amount.

In the consolidated financial statement such assets are presented in „Amounts due from banks" and "Amounts due from customers".

Purchased or originated credit impaired assets (POCI)

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

Financial assets measured at fair value through other comprehensive income

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

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

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

Group classifies in this category selected debt instruments and presents them in the consolidated financial statement as "Debt investment financial assets measured at fair value through other comprehensive income"

Financial liabilities measured at fair value through profit and loss

The category comprises derivative liabilities which are not hedging instruments and it comprises short sale liabilities presented as 'Financial assets held-for trading'.

Other financial liabilities

Other financial liabilities are financial liabilities which are not classified as financial liabilities at fair value through profit or loss. Customers' deposits are primarily classified in this category and commercial commitments and also liabilities from repo transactions presented as 'Amounts due to banks' and 'Amounts due to customers'.

Cash

Cash is cash in hand, nostro current account in Central Bank and receivables on current balances in banks described in detail in note 45 'Additional information to the statement of cash flows'.

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 Group's statement of financial position and derecognized at transaction settlement date, i.e., the date on which the Group will receive or transfer the ownership right to assets. The rights and liabilities from a concluded transaction are measured at fair value from the transaction conclusion day to the transaction settlement day.

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

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

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

The Group 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 Group recalculates gross balance sheet value of financial asset and recognizes modification profit or loss in profit or 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 are recognized at fair value from the trade date and are derecognized from the balance on the settlement date.

Valuation

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

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

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

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

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

Interest accrued using the effective interest rate method is recognized through profit or loss.

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

Finance lease receivables

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

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

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

Shares in other entities measured at fair value through income statement

Shares in entities other than subordinated entities are classified as financial assets measured at fair value through profit and loss.

Derivatives

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

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

Hedge accounting

The Group applies fair value hedge and used the option of IFRS 9 to continue the hedge accounting standard in acoorance with IAS 39 instead of regulations pointed in IFRS 9.

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

Fair value hedge is recognized in the following way: profits or losses resulting from valuation of fair value of hedging instrument (hedging derivatives) are recognized in the income statement.

Changes in valuation to the fair value of financial instruments designated as hedging positions are recognized – in a part resulting from hedged risk – in the income statement. In case of other parts, the changes in carrying amount are booked in accordance with the general rules for a given class of financial instruments.

Offsetting financial instruments

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

Cash pooling

The Group offers its clients cash management services which consolidate balances within the structure of related accounts ("cash pooling"). Such transactions net the positive and negative balances of participants' current accounts on a designated account of the entity which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed. Cash pooling transactions are presented on a net basis only if they meet the requirements of IFRS 9 regarding derecognition of financial assets and liabilities from the statement of financial position. Accounts receivable presented on a gross basis are presented as Amounts due from customers and accounts payable as 'Amounts due to customers'.

Repurchase and resale agreements, repo / reverse repo transactions

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

Impairment of assets measured at amortized cost

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

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

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

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

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

Objective evidence of impairment of a financial asset or a group of assets includes information obtained by the Group concerning events, which are provided in the later part of the note 49 'Risk management'.

Non-recoverable loans (i.e., loans for which the Group does not expect any future cash flows and that may be treated as tax deductible costs under separate tax regulations or that were unconditionally written off under an agreement with the customer) are, on the basis of Group's decision, written down against impairment allowances. If a written-down amount is subsequently recovered, the amount of income is presented in "Net impairment on financial assets and provisions for contingent 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 Group grants a concession to the debtor, if it does not change significantly the terms and expected cash flows of the financial asset, the expected cash flows from the financial asset subject to the concession are included in the measurement of the asset using the prior effective interest rate for the instrument.

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

Impairment allowances for expected credit losses

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

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

Impairment allowances for individually significant assets

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

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

Impairment allowances for individually not significant assets

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

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

Expected credit losses for financial assets measured at fair value through other comprehensive income

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

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

Impairment of assets other than financial assets

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

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

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

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.

Reversal of revaluation write-offs

Revaluation write-offs 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.

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.

Tangible fixed and intangible assets (excluding goodwill)

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

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

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2017.

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

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

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

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

Tangible fixed and 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 property and equipment is the higher of its fair value less costs of sale and value in use.

Non-current assets held-for-sale

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

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

Employee benefits

Short-term employee benefits

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

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

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

Share-based payments

Within the equity compensation plans, the selected employees get under stock award programs based on shares of Citigroup common stock in the form of deferred stock (CAP) and under stock award programs based on phantom shares of Bank Handlowy w Warszawie S.A. In 2018 there were no employees awarded as part of the CAP program.

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 on 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.

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.

A component of variable remuneration granted to the Management Board and people, whose professional operating has a significant impact on the Banks risk profile, is also the deferred cash prize described in detail in Note 48 "Employee benefits".

Defined contribution plans

The Group enables its employees to join a pension plan, which is described in detail in Note 48. The Group pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions; hence, this is a defined contribution plan in accordance with IAS 19 ("Employee Benefits"). Contributions are recognized as an expense in the related period.

Provisions

A provision is recognized in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and 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.

Restructuring provision

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

Accruals and prepayments

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

Equity

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

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

Calculating net income

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

Interest income and interest expenses and similar income

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

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

The effective interest rate applies for the gross carrying amount of financial asset, except for purchased 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 established financial assets with impairment on account of credit risk is determined by effective interest rate adjusted for credit risk.

Line item "Interest income" covers interest income on financial assets measured at amortized cost or financial assets measured at amortized cost through other comprehensive income. Line item "Similar income" as part of net interest income includes interest on financial assets measured at fair value through profit or loss. Interest on financial liabilities are presented in line item "Interest expense".

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

Fee and commission income and expenses

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

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

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

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

For other commissions Group performs:

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

If Group transfers control of service over time and, therefore, satisfies a performance obligation and the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, then fees are recognised over time in proportion to the completion of the service in fee income. In other cases the fees are recognised at a point in time when services have been completed and are presented in fee income. The above approach corresponds to the manner of meeting the obligations to provide services by the Group 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 Group 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 Group considers the terms of the contract to determine the transaction price. The transaction price is the amount of consideration (fixed, variable or both) to which Bank expects to be entitled in exchange for transferring promised services to a customer, excluding amounts collected on behalf of third parties.

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

a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

b) the costs generate or enhance resources of the Bank that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

c) the Group expects to recover the costs.

Income and expense from distribution of insurance products

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

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

Hedge accounting income

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

Other operating income and expenses

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

Income tax

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

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

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

Segment reporting

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

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

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

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.

Write-offs 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.

Financial assets and liabilities – classification and measurement rules under IAS 39 applied in the financial statement for year 2017, which were changed on 01.01.2018 through implementation of IFRS 9

Classification

The Group classified its financial instruments into the following categories:

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

The Group classified financial assets to particular categories on the date of their first recognition.

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

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

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

(b) Loans and receivables

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted on the active market. They arose when the Group provided funds to the debtor for any purpose except for the generation of short-term profits from trading in such loans or receivables. This category comprised, in the first instance, amounts due in respect of loans, purchased receivables and debt securities that were not quoted on the active market and internal deposits. The purchased receivables contained short-term receivables from domestic and foreign turnover documented by invoices and bills of exchange.

(c) Financial assets available-for-sale

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

(d) Other financial liabilities

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

Recognition and derecognition

The principles of recognition and derecognition did not change as a result of transfer from IAS 39 to IFRS 9 except for those explaining significant and minor modifications described in the accounting principles applied in 2018.

Valuation

The principles of initial recognition, amortized cost measurement and fair value measurement methods did not change with transition from IAS 39 to IFRS 9.

Impairment of assets measured at amortized cost

Group classified assets measured at amortized cost into the portfolio of assets that were individually significant and the portfolio of assets that were not individually significant (portfolio basis). On the balance sheet date, the Group assessed if there was 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 was 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) influenced the future expected cash flows resulting from a financial asset or a group of financial assets which might be reliably estimated.

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

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

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

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

Forbearance

In case the Group granted a concession to the debtor, if it did 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 were included in the measurement of the asset using the prior effective interest rate for the instrument.

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

Impairment allowances for incurred but not recognized credit losses

The Group created impairment allowances for incurred but not recognized credit losses ("IBNR"). The IBNR impairment allowances process covered all receivables for which no evidence of impairment had been found or for which such evidence had been found but the individual assessment of possible impairment had not confirmed the need to write them down. The IBNR impairment allowances reflected the level of credit loss incurred but not reported, which would be identified at the level of exposure in the period of loss recognition adopted by the Group. The IBNR impairment allowances were calculated using statistical parameters for the assets combined in portfolios having similar credit risk characteristics. In the financial statements, the Group corrected credit exposure with the value of the IBNR impairment allowances.

Impairment allowances for individually significant assets

The level of the impairment write-off for receivables that were deemed as individually significant and for which evidence of impairment had been detected was 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 were discounted to the present value with the effective interest rate for a given instrument.

If the present value of the estimated cash flows increased after an event occurring after impairment had been identified, the write-off that had been previously made was reversed through profit or loss.

Impairment allowances for individually not significant assets

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

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

Impairment of financial assets available-for-sale

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

Impairment of financial assets measured at cost

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

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

PLN'000	2018			2017*		
	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Net interest income	499,331	608,243	1,107,574	501,716	580,431	1,082,147
Internal interest income, including:	(43,366)	43,366	-	(26,482)	26,482	-
Internal income	-	43,366	43,366	-	26,482	26,482
Internal expenses	(43,366)	-	(43,366)	(26,482)	-	(26,482)
Net fee and commission income	283,490	266,458	549,948	282,705	297,956	580,661
Dividend income	1,474	8,059	9,533	1,634	7,794	9,428
Net income on financial instruments and revaluation	335,714	28,490	364,204	316,484	29,791	346,275
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income**	112,631	-	112,631	35,772	-	35,772
Net gain/(loss) on equity and other instruments measured at fair value through income statement***	6,522	-	6,522	3,377	-	3,377
Net gain/(loss) on hedge accounting	3,682	-	3,682	10,261	-	10,261
Net other operating income	9,199	(3,298)	5,901	19,123	(18,567)	556
General administrative expenses	(490,817)	(617,430)	(1,108,247)	(484,315)	(634,338)	(1,118,653)
Depreciation and amortization	(18,326)	(53,058)	(71,384)	(19,504)	(53,588)	(73,092)
Profit on sale of other assets	(829)	16	(813)	10,836	93	10,929
Net impairment loss on financial assets and provisons for off-balance sheet commitments ****	8,628	(72,139)	(63,511)	(51,365)	(51,824)	(103,189)
Operating income	**750,699**	**165,341**	**916,040**	**626,724**	**157,748**	**784,472**
Share in net profits/(losses) of entities valued at equity method	(22)	-	(22)	242	-	242
Tax on some financial institutions	(64,339)	(23,011)	(87,350)	(56,077)	(21,557)	(77,634)
Profit before tax	**686,338**	**142,330**	**828,668**	**570,889**	**136,191**	**707,080**
Income tax expense			(189,816)			(171,514)
Net profit			**638,852**			**535,566**

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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

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

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

PLN'000	31.12.2018			31.12.2017*		
	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Total assets	**41,778,812**	**7,525,902**	**49,304,714**	**35,906,089**	**7,131,507**	**43,037,596**
Total liabilities and shareholders equity, including:	**34,822,272**	**14,482,442**	**49,304,714**	**30,134,111**	**12,903,485**	**43,037,596**
Liabilities	29,342,859	12,905,105	42,247,964	24,799,594	11,299,119	36,098,713

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

4. Net interest income

PLN'000	2018	2017*
Interest income from:	**1,249,769**	**1,276,762**
financial assets measured at amortized cost	**978,996**	**954,739**
Balances with Central Bank	6,559	16,885
Amounts due from banks	22,941	22,086
Amounts from customers, including:	949,496	915,768
financial sector entities	55,653	50,042
non-financial sector entities, including:	893,843	865,726
credit cards	286,435	282,408
Financial assets measured at fair value through comprehensive income	**270,773**	**322,023**
Debt investment financial assets measured at fair value through comprehensive income**	270,773	322,023
Similar income from:	**54,745**	**74,648**
financial assets measured at fair value through financial result	**54,745**	**74,648**
Debt securities held-for-trading	44,802	26,417
Liabilities with negative interest rate	9,943	7,161
Derivatives in hedge accounting	-	41,070
	1,304,514	**1,351,410**
Interest expense and similar charges for		
financial liabilities measured at amortized cost	**(191,070)**	**(203,202)**
Amounts due to banks	(43,021)	(37,947)
Amounts due to customers	(147,803)	(164,755)
Amounts due to financial sector entities	(59,482)	(52,867)
Amounts due to non-financial sector entities	(88,321)	(111,888)
Loans and advances acquired	(246)	(500)
Financial liabilities measured at fair value though financial result	**(5,870)**	**(66,061)**
Assets with negative interest rate	(2,161)	(1,240)
Derivatives in hedge accounting	(3,709)	(64,821)
	(196,940)	**(269,263)**
Net interest income	**1,107,574**	**1,082,147**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

*** Corresponds to the 'Interest and similar income from debt securities available-for-sale' in accordance with IAS 39.*

5. Net fee and commission income

PLN'000	2018	2017
Fee and commission income		
Insurance and investment products distrubution	82,085	72,654
Payment and credit cards	159,205	158,443
Payment services	106,995	105,913
Custody services*	85,086	122,805
Brokerage operations	42,665	55,332
Cash management services on customers' accounts	25,610	25,099
Guarantees granted	19,194	19,289
Financial liabilities granted	7,933	6,406
Other, including:	110,188	98,224
installment products in credit card	27,483	26,142
	638,961	**664,602**
Fee and commission expense		
Payment and credit cards	(36,685)	(28,571)
Brokerage operations	(12,865)	(16,181)
Fees paid to the National Depository for Securities (KDPW)	(18,928)	(19,782)
Broker's fees	(4,516)	(4,412)
Other	(16,019)	(14,995)
	(89,013)	**(83,941)**
Fee and commission income	**549,948**	**580,661**

* *Starting from 1st quarter 2018 the remuneration of the Group from distribution of structured bonds for customers of Retail Sector in the amount of PLN 25,963 thousand, presented earlier in Custody services was moved to Insurance and investment products distribution. Comparative data was respectively restated (2017: PLN 33,362 thousand).*

The net fee and commission income for 2018 comprises commission income (other than income covered by the calculation of the effective interest rate process) related to financial assets and liabilities not measured at fair value through profit or loss in the amount of PLN 194,200 thousand (for 2017: PLN 164,040 thousand) and commission expenses in the amount of PLN 40,911 thousand (for 2017: PLN 28,571 thousand).

6. Dividend income

PLN'000	2018	2017
Securities available-for-sale	9,106	8,794
Securities held-for-trading	427	634
Total dividend income	**9,533**	**9,428**

7. Net income on financial instruments and revaluation

PLN'000	2018 r.	2017 r.
Net income on financial instruments measured at fair value through profit and loss from:		
Debt instruments	28,236	15,248
Equity instruments	(5,924)	1,775
Derivative instruments, including:	8,425	14,582
Interest rate derivatives	(313)	14,161
Capital derivatives	8,777	289
	30,737	**31,605**
Net income on FX operations		
Operations on FX derivative instruments	498,691	(215,674)
FX gains and losses (revaluation)	(165,224)	530,344
	333,467	**314,670**
Net income on financial instruments and revaluation	**364,204**	**346,275**

The net income on trading financial instruments and revaluation for 2018 contains movement in (net) adjustment of the valuation of derivatives from adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN (11,051) thousand (in 2017: PLN 396 thousand).

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

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

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

8. Hedge accounting income

PLN'000	2018	2017
Fair value hedge accounting		
Net gain on hedged transaction valuation	14,526	29,469
Net gain on hedging transaction valuation	(10,844)	(19,208)
Hedge accounting income	**3,682**	**10,261**

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

9. Net other operating income and expense

PLN'000	2018	2017
Other operating income		
Income from provision of services for related parties outside the Group	7,092	8,467
Income from office rental	7,650	8,951
Other	20,501	14,676
	35,243	**32,094**
Other operating expenses		
Amicable procedure and vindication expenses	(9,043)	(10,532)
Fixed assets held-for-sale maintenance cost	(87)	(100)
Net provision for litigation	(165)	(4,503)
Other	(20,047)	(16,403)
	(29,342)	**(31,538)**
Net other operating income	**5,901**	**556**

10. General administrative expenses

PLN'000	2018 r.	2017 r.
Staff expenses		
Remuneration costs, including:	(385,245)	(389,404)
Provisions for retirement allowances	(28,626)	(33,781)
Bonuses and rewards, including:	(81,241)	(80,020)
Payments related to own equity instruments	(8,700)	(7,165)
Rewards for long time employment	(38)	(37)
Social insurance costs	(63,014)	(61,892)
	(529,500)	**(531,316)**
Administrative expenses		
Telecommunication fees and hardware purchases	(187,339)	(188,484)
Costs of external services, including advisory, audit, consulting services	(55,169)	(53,447)
Building maintenance and rent costs	(64,208)	(69,409)
Advertising and marketing costs	(47,213)	(42,702)
Cash management service, KIR service and other transactional costs	(37,634)	(39,076)
Costs of external services related to the distribution of banking products	(40,402)	(33,486)
Postal services, office supplies and printmaking costs	(7,657)	(9,630)
Training and education costs	(1,409)	(1,815)
Banking and capital supervision costs	(4,316)	(3,258)

PLN'000	2018 r.	2017 r.
Bank Guarantee Funds costs	(61,720)	(71,226)
Other expenses	(71,680)	(74,804)
	(578,747)	**(587,337)**
Total general administrative expenses	**(1,108,247)**	**(1,118,653)**

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

PLN'000	2018	2017
Short-term employee benefits	13,158	12,553
Long-term employee benefits	2,784	1,841
Capital assets	4,550	4,712
	20,492	**19,106**

11. Depreciation expense

PLN'000	2018	2017
Depreciation of property and equipment	(28,759)	(29,749)
Amortization of intangible assets	(42,625)	(43,343)
Depreciation expense, total	**(71,384)**	**(73,092)**

12. Sale of other assets

PLN'000	2018	2017
Profits on:		
Sale of tangible fixed assets	48	10,939
	48	**10,939**
Losses on:		
Sale of tangible fixed assets	(1)	(10)
Sale of fixed assets held-for-sale	(860)	-
	(861)	**(10)**
Sale of other assets	**(813)**	**10,929**

13. Net impairment on financial assets and net provisions for contingent commitments

PLN '000	2018	2017
Net impairment on amounts due from banks		
Write-offs creation	(5,664)	(1,471)
Write-offs reversals	4,355	512
	(1,309)	**(959)**
Net impairment on amounts due from customers		
Write-offs creation and reversals	**(75,099)**	**(104,874)**
Write-offs creation	(214,504)	(211,432)
Net write-offs creation on receivables on taken instruments transactions	(215)	(155)
Write-offs reversals	140,482	99,810
Net write-offs creation on receivables on taken instruments transactions	208	1,545
Other	(1,070)	5,358
Recoveries from sold debts	**2,373**	**8,219**
	(72,726)	**(96,655)**
Net impairment on debt investment financial assets measured at fair value through other comprehensive income		
Write-offs reversals	1,069	-
	1,069	**-**
Net impairment on financial assets	**(72,966)**	**(97,614)**
Created provisions for granted financial and guarantee commitments	(33,810)	(17,773)
Release of provisions for granted financial and guarantee commitments	43,265	12,198
Net impairment on provisions for granted contingent commitments	**9,455**	**(5,575)**
Net impairment on financial assets and provisions for contingent commitments	**(63,511)**	**(103,189)**

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

14. Income tax expense

Recognized in the income statement

PLN'000	2018	2017
Current tax		
Current year	(207,258)	(196,417)
Adjustments for prior years	(1,120)	(797)
	(208,378)	**(197,214)**
Deferred tax		
Origination and reversal of temporary differences	18,562	25,700
	18,562	**25,700**
Total income tax expense in income statement	**(189,816)**	**(171,514)**

Reconciliation of effective tax rate

PLN'000	2018	2017
Profit before tax	828,668	707,080
Income tax at the domestic corporate tax rate of 19%	(157,447)	(134,345)
Impairment write-offs not constituting deductible expenses	(2,322)	(4,693)
Deductible income not recognized in the income statement	(1,294)	(1,305)
Deductible expenses not recognized in the income statement	(120)	42
Non-taxable income	1,828	1,783
Tax on some financial institutions	(16,597)	(14,751)
Bank Guarantee Fund	(11,727)	(13,533)
Other permanent differences, including other non-deductible expenses	(2,137)	(4,712)
Total tax expenses	**(189,816)**	**(171,514)**
Effective tax rate	**22.91%**	**24.26%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2018 is related to financial assets measured at fair value through other comprehensive income and valuation of defined benefit plan and amounted to PLN (18,227) thousand (31 December 2017: PLN 3,327 thousand).

15. Earnings per share

As at 31 December 2018, earnings per share amounted to PLN 4.89 (31 December 2017: PLN 4.10).

The calculation of earnings per share as at 31 December 2018 was based on profit attributable to shareholders of PLN 638,852 thousand (31 December 2017: PLN 601,580 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2018 of 130,659,600 (31 December 2017: 130,659,600).

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

16. Changes in other comprehensive income

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

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 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 specific services program valuation	(3,507)	665	(2,842)
As at 31 December 2018	**95,485**	**(18,227)**	**77,258**

PLN'000	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2017	**(271,083)**	**51,506**	**(219,577)**
Change in valuation of financial assets available-for-sale	289,754	(55,054)	234,701
Valuation of financial assets available-for-sale sold, recognized to income statement	(35,772)	6,797	(28,975)
Total comprehensive income connected with financial assets available-for-sale	**(17,101)**	**3,249**	**(13,851)**
Net actuarial profits/(losses) on specific services program valuation	(412)	78	(334)
As at 31 December 2017*	**(17,513)**	**3,327**	**(14,185)**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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

**** Corresponds to the 'Valuation of financial assets available-for-sale, recognized to income statement , in accordance with IAS 39.*

17. Cash and balances with the Central Bank

PLN'000	31.12.2018	31.12.2017
Cash in hand	422,064	431,574
Current balances with Central Bank	3,850,088	29,031
Deposits	3,000,041	1,521
Cash and balances with the Central Bank, total	**7,272,193**	**462,126**

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 2018 to PLN 1,271,148 thousand (31 December 2017: PLN 1,270,278 thousand).

18. Amounts due from banks

PLN'000	31.12.2018 r.	31.12.2017 r.*
Current accounts	203,311	54,291
Deposits	386,058	499
Loans and advances	28	1,092
Receivables due to purchased securities with a repurchase agreement	630,126	276,477
Deposits pledged as collateral of derivative instruments and stock market transactions	118,364	505,526
Total gross amount	**1,337,887**	**837,885**
Impairment write-offs	(3,910)	(1,111)
Total net amount due from banks	**1,333,977**	**836,774**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

The amandments of gross amounts due from banks that contributed to movements in loss alloance amounts is as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Loss allowance 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)/Realeses 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)**

** As of 31.12.2018 the Group has not identified POCI assets (purchased or originated credit impaired assets).*

PLN'000	31.12.2017 r.*
As at 1 January	**(177)**
Increases (due to):	
Write-offs creation	(1,471)
Decreases (due to):	
Write-offs release	512
Other	25
As at 31 December	**(1,111)**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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 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**

19. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN'000	31.12.2018	31.12.2017
Debt securities held-for-trading		
Bonds and notes issued by:		
Other banks*	1	1
Other financial entities	12,943	48,412
Central governments	918,228	1,095,495
	931,172	**1,143,908**
Including:		
Listed on active market	931,172	1,143,908
Equity instruments held-for-trading	**23,227**	**17,885**
Including:		
Listed on active market	23,227	17,885
Derivative financial instruments	**1,282,677**	**1,018,132**
Financial assets held-for-trading, total	**2,237,076**	**2,179,925**

* *As at 31 December 2018, some of the securities (bonds) issued by banks in the amount of PLN 1 thousand are covered by Government guarantees (31 December 2017: PLN 1 thousand).*

Financial liabilities held-for-trading

PLN'000	31.12.2018	31.12.2017
Liabilities related to short-sale of securities	351,323	2,184
Derivatives	1,258,059	1,351,031
Financial liabilities held-for-trading, total	**1,609,382**	**1,353,215**

As at 31 December 2018 and 31 December 2017, 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 2018

PLN'000	Nominal amount with remaining life of					Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	Total	Assets	Liabilities
Interest rate instruments	**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.*

Derivative financial instruments as at 31 December 2017

PLN'000	Nominal amount with remaining life of					Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	Total	Assets	Liabilities
Interest rate instruments	**24,295,666**	**17,869,973**	**85,623,135**	**24,725,360**	**152,514,134**	**789,232**	**927,088**
FRA	20,000,000	2,100,000	-	-	22,100,000	625	953
Interest rate swaps (IRS)	3,396,815	12,408,395	75,015,277	17,054,089	107,874,576	335,185	468,544
Currency-interest rate swaps (CIRS)	871,017	3,361,578	8,867,208	7,622,195	20,721,998	450,492	454,484
Interest rate options	-	-	1,740,650	49,076	1,789,726	2,742	3,042
Futures*	27,834	-	-	-	27,834	188	65
Currency instruments	**17,515,391**	**5,186,042**	**3,886,044**	**126,517**	**26,713,994**	**215,185**	**410,018**
FX forward	2,158,225	1,443,017	225,134	126,517	3,952,893	96,626	27,094
FX swap	13,876,902	1,554,055	3,127,637	-	18,558,594	92,936	357,344
Foreign exchange options	1,480,264	2,188,970	533,273	-	4,202,507	25,623	25,580
Securities transactions	**484,613**	**6,030**	**-**	**-**	**490,643**	**2,120**	**2,310**
Futures*	24,542	6,030	-	-	30,572	-	-
Securities purchased / sold pending delivery	460,071	-	-	-	460,071	2,120	2,310
Commodity transactions	**53,345**	**124,505**	**28,219**	**-**	**206,069**	**11,595**	**11,615**
Swap	49,261	107,896	28,219	-	185,376	10,802	10,819
Options	4,084	16,609	-	-	20,693	793	796
Total derivative instruments	**42,349,015**	**23,186,550**	**89,537,398**	**24,851,877**	**179,924,840**	**1,018,132**	**1,351,031**

* *Exchange-traded products.*

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

PLN'000	31.12.2018	31.12.2017
Bonds and notes issued by:		
Central bank	-	1,399,713
Other banks, including:	-	32,576
bonds subject to fair value hedge accounting	-	32,576
Other financial entities	224,074	82,192
Central governments, including:	14,017,289	15,924,958
bonds subject to fair value hedge accounting	-	2,492,215
Debt securities measured at fair value through other comprehensive income, total**	**14,241,363**	**17 439,439**
Including:		
Listed on active market instruments	14,241,363	16,039,726
Unlisted on active market instruments	-	1,399,713

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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

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

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

PLN'000	2018	2017
As at 1 January	**17,439,439**	**19,072,371**
Increases (due to):		
Purchases	44,485,571	47,305,910
Revaluation	100,274	257,684
Exchange differences	65,153	-
Depreciation of discount, premium and interest	262,038	411,359
Decreases (due to):		
Sale	(47,960,505)	(49,060,934)
Exchange differences	-	(352,893)
Depreciation of premium	(150,607)	(194,058)
As at 31 December	**14,241,363**	**17,439,439**

21. Equity investments valued using the equity method

PLN'000	31.12.2018	31.12.2017
Shares in subsidiaries	**10,399**	**10,664**
Including:		
Unlisted instruments	10,399	10,664

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

PLN'000	2018	2017
As at 1 January	**10,664**	**10,471**
Increases (due to):		
Revaluation	-	193
Decreases (due to):		
Revaluation	(265)	-
As at 31 December	**10,399**	**10,664**

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

PLN'000	31.12.2018	31.12.2017
Stocks and shares in other entities	20,248	30,750
Impairment	28,520	(4,250)
Equity and other instruments measured at fair value through income statement, total	**48,768**	**26,500**
Including:		
Listed on active market instruments	1,027	1,316
Unlisted on active market instruments	47,741	25,184

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

PLN'000	2018	2017
As at 1 January	**26,500**	**22,842**
Reclassification /Impact of adopting IFRS 9	16,064	-
As at 1 January 2018	**42,564**	**22,842**
Increases (due to):		
Revaluation	6,204	4,294
Decreases (due to):		
Sale	-	(636)
As at 31 December	**48,768**	**26,500**

23. Amounts due from customers

PLN'000	31.12.2018	31.12.2017*
Amounts due from financial sector entities		
Loans, placements and advances	401,223	444,754
Debt financial assets unlisted**	1,156,233	1,200,636
Receivables due to purchased securities with a repurchase agreement	182,613	
Guarantee funds and deposits pledged as collateral	362,807	365,788
Other receivables	45,330	1,312
Total gross amount	**2,148,206**	**2,012,490**
Impairment write-offs	(1,391)	(17,473)
Total net amount	**2,146,815**	**1,995,017**
Amounts due from non-financial sector entities		
Loans and advances	18,047,445	16,722,365
Unlisted debt financial assets**	568,024	496,125
Purchased receivables	1,830,937	1,193,041
Realized guarantees	481	1,038
Other receivables***	20,481	11,757
Total gross amount	**20,467,368**	**18,424,326**
Impairment write-offs	(665,169)	(570,310)
Total net amount	**19,802,199**	**17,854,016**
Total net amounts due from customers	**21,949,014**	**19,849,033**

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

** *Corresponds to the 'Unlisted debt securities' in accordance with IAS 39.*

*** *As at 31 December 2018 position "Other receivables" contains leasing receivables in amount PLN 2,174 thousand (31 December 2017: PLN 3,982 thousand).*

The gross value of receivables does not include contractual interest accrued from the time the exposure is classified in Stage 3. The impact of including such interest on the gross carrying amount is presented below.

In amounts due from customers presented on the line "Unlisted debt securities" are securities assets covered by the Group. Deciding to invest in securities based on economic calculation, measuring return on investment against the potential risks. The Group that owns the portfolio (the Initiator) founds a special purpose company (SPV) in order to issue debt securities in each securitization transaction. The issued debt securities are solely repaid from the cash flows generated by securitized receivables portfolio which the SPV bought from the Initiator. Unitl now the Group acted as investor and acquired the senior tranche in the amount of PLN 1,199,611 thousand. Securities purchased by the Group are not traded on the market. The Group intends to maintain investments until the maturity date. The main risk of securitisation transactions is credit risk. Group's maximum exposure to loss from involment in these entities is equal to their carrying gross value, as at 31 December 2018 in the of amount PLN 1,156,233 thousand (31 December 2017: PLN 1,200,636 thousand). The carrying value of assets relating in Bank participation in unconsolidated structured entities as at 31 December 2018 in the amount of PLN 1,155,554 thousand (31 December 2017: PLN 1,200,576 thousand).

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

PLN '000	31.12.2018
Gross total value including contract interest in Stage 3	23,027,103
Impairment write-downs including contract interest in Stage 3	(1,078,089)
Net total value	**21,949,014**

Movement in loss allowance – amounts due from customers presents as follows:

PLN '000	Stage 1	Stage 2	Stage 3	Total
Loss allowance - amounts due from customers				
Loss allowance as at 31 December 2017	**-**	**-**	**-**	**(587,783)**
Impact of adopting IFRS 9	-	-	-	(86,124)
Reclassification	-	-	-	5,178
Loss allowance 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)/Realeses in the period though the income statement	(697)	1,569	(75,971)	(75,099)
Decrease in write-downs due to write-offs	-	-	57,158	57,158
Decrease in write-downs in connection with the sale of receivables	-	-	21,292	21,292
Foreign exchange and other movements	(226)	(188)	(768)	(1,182)
Loss allowance 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).

PLN '000	2017*		
	Institutional customers	Retail customers	Total
As at 1 January	**(278,639)**	**(284,782)**	**(563,421)**
Increases (due to):			
Creation of write-offs	(90,421)	(121,011)	(211,432)
Decreases (due to):			
Restating receivables	26,214	13,470	39,684
Net write-offs on receivables on taken instruments transactions	1,390	-	1,390
Write-offs release	45,925	53,885	99,810
Sale of receivables	-	42,458	42,458
Other	3,287	441	3,728
As at 31 December	**(292,244)**	**(295,539)**	**(587,783)**

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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 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	145,486	(69,223)	(76,263)	-
Purchased/paid receivables	2,923,010	152,723	(50,915)	3,024,818
Recognized recivables	-	-	(57,158)	(57,158)
Disposed recivables	-	-	(42,375)	(42,375)
Other movements	100,607	6,386	(5,758)	101,235
Gross amounts due from customers as at 31 December 2018	**20,468,724**	**1,642,110**	**504,740**	**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 Janaury 2018 or at the moment of initial recognition and as of 31 December 2018.

Finance lease receivables

In the fourth quarter 2016, a decision was made on the purchase by the Bank of the remaining working lease portfolio from Handlowy Leasing Sp. z o.o. The transaction was executed at the end of the first quarter 2017.

The asset position "Amounts due from customers" contains the following positions referring to receivables from the non-financial sector based on financial leasing:

PLN'000	31.12.2018	31.12.2017
Gross finance lease receivables	2,174	3,982
Impairment of finance lease receivables	(2,174)	(2 176)
Unrealized financial income	-	-
Net finance lease receivables	**-**	**1,806**

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

PLN'000	31.12.2018	31.12.2017
Less than 1 year	2,174	3,982
	2,174	**3,982**

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

PLN'000	31.12.2018	31.12.2017
Less than 1 year	2,174	3,982
Impairment of finance lease receivables	(2,174)	(2,176)
	-	**1,806**

Finance lease income is presented in interest income.

24. Tangible fixed assets

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**

Movements of tangible fixed assets in 2017

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2017	**592,771**	**96**	**1,215**	**278,112**	**19,465**	**891,659**
Increases:						
Purchases	71	-	10,725	4,588	76,904	92,288
Other increases	4,059	-	-	466	-	4,525
Decreases:						
Disposals	(34,397)	-	(539)	(13,446)	-	(48,382)
Liquidation	(623)	-	-	(17,702)	-	(18,325)
Other decreases	(22)	-	-	(87)	-	(109)
Transfers	10,327	-	-	5,508	(25,729)	(9,894)
As at 31 December 2017	**572,186**	**96**	**11,401**	**257,439**	**70,640**	**911,762**

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Depreciation						
As at 1 January 2017	**298,366**	**96**	**510**	**249,716**	**-**	**548,688**
Increases:						
Amortization charge for the period	16,550	-	634	12,565	-	29,749
Other increases	-	-	-	462	-	462
Decreases:						
Disposals	(12,153)	-	(317)	(13,293)	-	(25,763)
Liquidation	(623)	-	-	(17,439)	-	(18,062)
Other decreases	-	-	-	(87)	-	(87)
As at 31 December 2017	**302,140**	**96**	**827**	**231,924**	**-**	**534,987**
Carrying amount						
As at 1 January 2017	294,405	-	705	28,396	19,465	342,971
As at 31 December 2017	**270,046**	**-**	**10,574**	**25,515**	**70,640**	**376,775**

25. Intangible assets

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)
Write-offs	-	(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)
Write-offs	-	(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 Group analysed 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 2017

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2017	**1,245,976**	**2,545**	**415,844**	**18,519**	**12,690**	**1,695,574**
Increases:						
Purchases	-	130	268	-	38,569	38,967
Decreases:						
Liquidation	-	-	(7,434)	-	-	(7,434)
Other decreases	-	(99)	(179)	-	-	(278)
Transfers	-	-	37,368	-	(31,433)	5,935
As at 31 December 2017	**1,245,976**	**2,576**	**445,867**	**18,519**	**19,826**	**1,732,764**
Depreciation						
As at 1 January 2017	**-**	**2,347**	**323,847**	**18,519**	**-**	**344,713**
Increases:						
Amortization charge for the period	-	50	43,293	-	-	43,343
Other increases						
Decreases:	-	-	(7,434)	-	-	(7,434)
Liquidation	-	(95)	(176)	-	-	(271)
As at 31 December 2017	**-**	**2,302**	**359,530**	**18,519**	**-**	**380,351**
Carrying amount						
As at 1 January 2017	1,245,976	198	91,997	-	12,690	1,350,861
As at 31 December 2017	**1,245,976**	**274**	**86,337**	**-**	**19,826**	**1,352,413**

As at 31 December 2018, 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.

26. Impairment test for goodwill

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	31.12.2018	31.12.2017
Corporate Bank	851,944	851,944
Consumer Bank	394,032	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 2018, the discount rate amounted to 8.80% (9.00% at the end of 2017).

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 2018.

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.

27. Deferred income tax asset and liabilities

PLN'000	31.12.2018	31.12.2017
Deferred income tax asset	540,524	371,401
Deferred income tax liability	336,317	195,497
Deferred income tax net asset	**204,207**	**175,904**

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

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

Deferred tax asset is attributable to the following:

PLN'000	31.12.2018	31.12.2017
Interest accrued and other expense	10,755	10,059
Revaluation impairment write-offs	81,383	48,321
Unrealized premium from securities	81,285	58,436
Negative valuation of derivative financial instruments	286,037	164,999
Negative valuation of securities held-for-trading	280	688
Income collected in advance	30,700	29,480
Valuation of shares	(4,735)	779
Commissions	5,877	6,137
Debt and equity securities measured at fair value through other comprehensive income*	(974)	2,138
Staff expenses and other costs due to pay	45,883	45,663
Other	4,033	4,701
Deferred tax asset	**540,524**	**371,401**

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

Deferred tax liability is attributable to the following:

PLN'000	31.12.2018	31.12.2017
Interest accrued (income)	40,067	37,828
Positive valuation of derivative financial instruments	246,146	115,419
Unrealized securities discount	2,312	7,097
Income to receive	2,748	3,243
Positive valuation of securities held-for-trading	722	568
Debt and equity securities measured at fair value through other comprehensive income*	25,490	10,833
Investment relief	10,453	11,401
Valuations of shares	1,926	1,930
Other	6,453	7,178
Deferred tax liability	**336,317**	**195,497**
Net deferred income tax asset	**204,207**	**175,904**

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

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 write-offs	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**

Movement in temporary differences during the year 2017

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 1 January 2017	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2017
Interest accrued and other expense	11,360	(1,301)	-	10,059
Revaluation impairment write-offs	39,680	8,641	-	48,321
Unrealized premium from securities	46,370	12,066	-	58,436
Negative valuation of derivative financial instruments	158,457	6,542	-	164,999
Negative valuation of securities held-for-trading	2,938	(2,250)	-	688
Income collected in advance	26,455	3,025	-	29,480
Valuation of shares	2,039	(1,260)	-	779
Commissions	8,181	(2,044)	-	6,137
Debt and equity securities available-for-sale	50,395	-	(48,257)	2,138
Staff expenses and other cost due to pay	57,764	(12,179)	78	45,663
Other	3,020	1,681	-	4,701
	406,659	**12,921**	**(48,179)**	**371,401**

The movement in temporary differences relating to deferred tax liability:

PLN'000	As at 1 January 2017	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2017
Interest accrued (income)	39,158	(1,330)	-	37,828
Positive valuation of derivative financial instruments	127,598	(12,179)	-	115,419
Unrealized securities discount	7,372	(275)	-	7,097
Income to receive	4,842	(1,599)	-	3,243
Positive valuation of securities held-for-trading	(69)	637	-	568
Debt and equity securities available-for-sale	9,313	1,520	-	10,833
Investment relief	12,334	(933)	-	11,401
Valuations of shares	1,884	46	-	1,930
Other	5,844	1,334	-	7,178
	208,276	**(12,779)**	**-**	**195,497**
Change in net deferred income tax assets	**198,383**	**25,700**	**(48,179)**	**175,904**

28. Other assets

PLN'000	31.12.2018	31.12.2017
Interbank settlements	2,981	3,469
Settlements related to brokerage activity	34,217	164,303
Income to receive	53,170	53,131
Staff loans out of the Social Fund	17,427	17,039
Sundry debtors	106,198	78,308
Prepayments	8,925	9,198
Other assets, total	**222,918**	**325,448**
Including financial assets*	160,823	263,119

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

29. Non-current assets held-for-sale

Changes in tangible assets meant for sale are as follows:

PLN'000	1.01-31.12.2018	1.01-31.12.2017
Status at beginning of period	**1,928**	**1,928**
Increases:		
Remapping from tangible fixed assets		13,502
Decreases		
Sales	(1,928)	(13,502)
Status as of end of period	**-**	**1,928**

In 2018 the Bank sold two real estates classified as non-current assets held-for-sale. The value of negotiable amounted to PLN 1,928 thousand and the result on transaction amounted to PLN (860) thousand.

In 2017 the perpetual usufruct right to property including the improvements located there, worth PLN 13,502 thousand, that are under the Group ownership, were reclassified from tangible fixed assets to non-current assets held-for-sale in accordance to the conclusion of Conditional Sale Contract (as at 14 June 2017).

As a result of the implementation of the only condition of the Agreement, i.e. in view of the fact the President of the Capital City of Warsaw not exercise the pre-emptive right to purchase real estate the Rights Transfer Agreement was concluded on 19 July 2017, and as a result, the transfer of ownership and payment of the price by the Purchaser. Transaction parameters: gross book value equal to net value amounted to PLN 13,502 thousand, net sale price amounted to PLN 24,000 thousand and the result on the transaction amounted to PLN 10,500 thousand.

30. Amounts due to banks

PLN'000	31.12.2018	31.12.2017
Current accounts	912,995	1,108,689
Term deposits	162,737	248,373
Loans and advances received	1,326	36,467
Liabilities due to sold securities under repurchase agreements	115,208	9,085
Other liabilities	209,967	165,762
margin deposits	208,901	163,769
Total amounts due to banks	**1,402,233**	**1,568,376**

Movements in loans received:

PLN'000	2018	2017
As at the beginning of the period	**36,467**	**128,026**
Increase (due to):		
drawing of loans	-	31,292
interest on loans	246	504
FX differences	549	-
Decrease (due to):		
repayment of loans	(35,866)	(118,861)
interest repayment	(70)	(407)
FX differences	-	(4,087)
As at the end of the period	**1,326**	**36,467**

31. Amounts due to customers

PLN'000	31.12.2018	31.12.2017
Deposits from financial sector entities		
Current accounts	704,512	531,361
Term deposits	6,335,488	4,321,787
	7,040,000	**4,853,148**
Deposits from non-financial sector entities		
Current accounts, including:	24,987,518	22,129,625
institutional customers	11,930,693	10,766,475
individual customers	9,380,065	8,536,410
public sector units	3,676,760	2,826,740
Term deposits, including:	6,069,930	4,962,380
institutional customers	3,476,957	3,053,104
individual customers	2,523,267	1,812,310
public sector units	69,706	96,966
	31,057,448	**27,092,005**
Total deposits	**38,097,448**	**31,945,153**
Other liabilities		
Liabilities from securities sold under repurchase agreements		
Other liabilities, including:	236,897	191,545
liabilities due to deposits	121,416	112,611
margin deposits	66,583	40,671
Total other liabilities	**236,897**	**191,545**
Total amounts due to customers	**38,334,345**	**32,136,698**

32. Provisions

PLN'000	31.12.2018	31.12.2017
Litigation*	3,221	3,154
Granted financial and guarantee liabilities*	26,481	12,789
Workforce restructuring	-	429
Restructuring of the branch network	282	1,928
Provisions, total	**29,984**	**18,300**

The movement in provisions is as follows:

PLN'000	2018	2017
As at 1 January	**18,300**	**22,856**
Provisions for:		
Litigation	3,154	3,823
Granted financial and guarantee commitments	12,789	7,215
Workforce restructuring	429	4,171
Restructuring of the branch network	1,928	7,647
Impact of adopting IFRS 9	22,886	-
Granted financial and guarantee commitments	22,886	-
Increases:		
Charges to provisions in the period:	34,430	23,347
litigation	359	5,574
granted financial and guarantee commitments	34,071	17,773

PLN'000	2018	2017
Decreases:		
Release of provisions in the period	(1,808)	(13,971)
litigation	(194)	(1,071)
granted financial and guarantee commitments	(43,265)	(12,198)
employment restructuring	(429)	(360)
restructuring of the branch network	(1,185)	(342)
Provisions used in the period, including:	(559)	(13,864)
litigation	(98)	(5,104)
workforce restructuring	-	(3,383)
restructuring of the branch network	(461)	(5,377)
Other, including	-	(68)
litigation	-	(68)
As at 31 December	**29,984**	**18,300**
including:		
litigation	3 221	3 154
granted financial and guarantee commitments	26 481	12 789
employment restructuring	-	429
restructuring of the branch network	282	1 928

* *Additional information about provisions for litigation and granted financial and guarantee commitments are in Note 41.*

33. Other liabilities

PLN'000	31.12.2018	31.12.2017
Staff benefits	35,459	37,590
Interbank settlements	120,783	293,405
Inter-branch settlements	1,197	4,728
Settlements related to securities trading	284	-
Settlements related to brokerage activity	61,885	133,140
Settlements with Tax Office and National Insurance (ZUS)	26,328	20,857
Sundry creditors	295,702	172,434
Accruals:	242,908	237,601
Provision for employee payments	83,930	85,454
Provision for employee retirement	58,340	51,769
IT services and bank operations support	36,145	29,449
Consultancy services and business support	5,774	9,273
Other	58,719	61,656
Deferred income	21,177	19,838
Other liabilities, total	**805,723**	**919,593**
Including financial liabilities*	758,218	878,898

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

Classic payment condition in the frames of Group liabilities implementation resulting in rising the balance sheet liability is receiving in advance compensation for providing services in specified time. In accordance with this, the balance of liabilities is decreased on the time proportion basis and recognized as income. This procedure, in the best way, reflects implementation of liabilities to provision of providing services on time.

There is no remuneration not calculated in transaction price.

Within the range of liabilities to provision of providing services on time, the Group 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

In the case of liabilities implement at the time, there is no subjective assesments within the range of setting the moment of control under the service by the client.

Within the area of methods, input data and assumptions adoptted to estimate variable remuneration, the Group 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. The Group addresses all issues setting the level of income subject to identified variables (remuneration under specified objectives, expected reimbrusemenrs, all discunts).

For the remuneration for mediation in distribution of incurance products, in particular with the insurance connected with Group'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 Group divides into remuneration being part of interest income and remuneration for provided services connected with the distribution and operation of these products.

34. Financial assets and liabilities by contractual maturity

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)	**18**	**1,337,887**	**812,646**	**-**	**296,245**	**228,996**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	19	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	20	14,241,363	121,044	-	-	11,499,980	2,620,339
Amounts due from customers (gross)							
Amounts due from financial sector entities	23	2,148,206	498,115	-	1,550,091	100,000	-
Amounts due from non-financial sector entities	23	20,467,368	7,704,493	1,492,378	2,510,333	6,886,074	1,874,090
Amounts due to banks	**30**	**1,402,233**	**1,384,456**	**2,683**	**15,000**	**43**	**51**
Amounts due to customers							
Amounts due to financial sector entities	31	7,103,501	7,100,962	446	2,072	-	21
Amounts due to non-financial sector entities	31	31,230,844	29,720,688	1,054,054	434,847	21,202	53

As at 31 December 2017*

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	**18**	**837,885**	**569,301**	**1,044**	**-**	**267,540**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	19	1,143,908	3,037	-	30,104	624,158	486,609
Financial assets available-for-sale							
Debt securities available-for-sale	20	17,439,439	1,399,713	-	-	11,589,050	4,450,676
Amounts due from customers (gross)							
Amounts due from financial sector entities	23	2,012,490	431,822	-	80,668	1,500,000	-
Amounts due from non-financial sector entities	23	18,424,326	6,539,253	1,586,970	1,402,874	6,833,854	2,061,375
Amounts due to banks	**30**	**1,568,376**	**1,512,790**	**6,635**	**42,594**	**6,314**	**43**
Amounts due to customers							
Amounts due to financial sector entities	31	4,890,736	4,711,398	174,350	4,957	12	19
Amounts due to non-financial sector entities	31	27,245,962	26,126,664	729,103	358,935	31,207	53

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods*

35. Capital and reserves

Share capital

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

The par value of 1 share amounts to PLN 4.00

As at 31 December 2018, 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 2017.

The Parent entity has not issued preferred shares.

Both in 2018 and 2017, there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2018 and 31 December 2017, held at least 5% of the total number of votes at the General Meeting or at least 5% of the Parent enity'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 2018 and during the period from the publication of the previous interim quarterly report for Q3 2018 until the day of the publication of this annual consolidated financial statements for 2018, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2018, supplementary capital was PLN 3,003,290 thousand (31 December 2017: PLN 3,003,969 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	31.12.2018	31.12.2017
Revaluation of financial assets measured at fair value through other comprehensive income*	84,372	(9,118)

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

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	31.12.2018	31.12.2017
Reserve capital	2,347,028	2,356,109
General risk reserve	540,200	540,200
Net actuarial losses on specific services program valuation	(7,910)	(5,070)
Foreign currency translation adjustment	4,520	4,359
Other reserves, total	**2,883,838**	**2,895,598**

On 8 June 2018 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2017, deciding to appropriate the amount of PLN 91 thousand for reserve capital.

Reserve capital

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

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

General risk reserve

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

Dividends

Dividends paid for 2017

At the meeting on June 8, 2018, 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 2017. The WZ resolved to appropriate the amount of PLN 537,010,956.00 to the dividend payment, which means that the dividend per one ordinary share is PLN 4.11. The number of shares covered by the dividend is 130,659,600.

Simultaneously, the WZ resolved to set the day of the right to the dividend for June 3, 2018 (day of dividend) and the day of the dividend payment for June 20, 2018 (day of the dividend payment).

Declared dividends

On 13 March 2019, the Bank's Management Board adopted a resolution on the proposed distribution of profit for 2018. The Bank's Management Board has proposed to allocate the amount of PLN 488,666,904.00 for the dividend payment. The dividend has a cash character. This means that the dividend per share amounts to PLN 3.74. The number of shares covered by dividends is 130,659,600. The dividend record date was designated as 13 June 2019 and the dividend payment date was designated as 24 June 2019. This proposal of the Bank's Management Board will be submitted to the Supervisory Board for an opinion and then to the General Shareholders' Meeting for approval.

36. Repurchase and reverse repurchase agreements

Repurchase agreements

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

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

As at 31 December 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.*

As at 31 December 2017, 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	9,079	9,085	up to a week	9,086

* *including interest.*

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

As at 31 December 2018 and as at 31 December 2017, assets sold through repo cannot be further traded.

In 2018, the total interest expense on repurchase agreements was PLN 8,592 thousand (in 2017: PLN 12,981 thousand).

Reverse repurchase agreements

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

As at 31 December 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**

* *including interest.*

As at 31 December 2017, 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	9,085	8,974	Up to 1 week	9,086
	266,522	342,810	Up to 2 years	267,540

* *including interest.*

As at 31 December 2018 and 31 December 2017, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2018, the total interest income on reverse repurchase agreements was PLN 9,908 thousand (in 2017: PLN 12,488 thousand).

As at 31 December 2018 the liabilities due to short sale of securities purchased in reverse repo transactions amounted to PLN 351,323 thousand (as at 31 December 2017: PLN 2,184 thousand).

37. Offsetting of financial assets and financial liabilities

According to information in Note 2, 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	31.12.2018		31.12.2017	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	1,299,582	1,254,047	1,064,803	1,365,131
Value of collateral received/placed	(181,981)	(224,316)	(166,550)	(528,493)
Assets and liabilities subject to offsetting under the master agreement	**1,117,601**	**1,029,731**	**898,253**	**836,638**
Maximum amount of potential offset	(1,007,304)	(1,007,304)	(778,682)	(778,682)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**110,297**	**22,427**	**119,571**	**57,956**

38. 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.

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 2018, the Group did not possess any active hedging instruments. The cumulated amount of fair value hedging adjustments of the hedged positions in the statement of financial position where the adjustment to gains and losses on fair value hadging, as at 31 December 2018 amounted to PLN 39,399 thousand.

Fair value of instruments within fair value hedge accounting of securities

PLN'000	31.12.2017	
	Nominal value	Fair value
Hedged instruments		
Debt securities available-for-sale		
Treasury bonds	2,290,000	2,492,215
Bank bonds	30,000	32,576
Hedging instruments		
Derivative instruments		
Interest rate swaps - positive valuation	-	-
Interest rate swaps - negative valuation	2,320,000	50,191

39. Fair value information

Fair value of financial assets and liabilities

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

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

As at 31 December 2018

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/ liabilities	Total carrying value	Fair value
Financial assets							
Cash and balances with Central Bank	17	-	7 272 193	-	-	7 272 193	7 272 193
Amounts due from banks measured at amortized cost	18	-	1 333 977	-	-	1 333 977	1 333 896
Financial assets held-for-trading measured at fair value	19	2 237 076	-	-	-	2 237 076	2 237 076
Debt investment financial assets measured at fair value through other comprehensive income	20	-	-	14 241 363	-	14 241 363	14 241 363
Equity and other instruments measured at fair value through income statement	22	-	-	48 768	-	48 768	48 768
Amounts due from customers measured at amortized cost	23	-	21 949 014		-	21 949 014	21 897 248
		2 237 076	**30 555 184**	**14 290 131**	**-**	**47 082 391**	**47 030 544**
Financial liabilities							
Amounts due to banks	30	-	-	-	1 402 233	1 402 233	1 402 326
Financial liabilities held-for-trading	19	1 609 382	-	-	-	1 609 382	1 609 382
Amounts due to customers	31	-	-	-	38 334 345	38 334 345	38 332 779
		1 609 382	**-**	**-**	**39 736 578**	**41 345 960**	**41 344 487**

As at 31 December 2017*

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/ liabilities	Total carrying value	Fair value
Financial assets							
Cash and balances with Central Bank	17	-	462,126	-	-	462,126	462,126
Amounts due from banks	18	-	836,774	-	-	836,774	836,774
Financial assets held-for-trading	19	2,179,925	-	-	-	2,179,925	2,179,925
Debt securities available-for-sale	20	-	-	17,439,439	-	17,439,439	17,439,439
Equity investments available-for-sale	22	-	-	26,500	-	26,500	26,500
Amounts due from customers	23	-	19,849,033	-	-	19,849,033	19,809,377
		2,179,925	**21,147,933**	**17,465,939**	**-**	**40,793,797**	**40,754,141**
Financial liabilities							
Amounts due to banks	30	-	-	-	1,568,376	1,568,376	1,568,474
Financial liabilities held-for-trading	19	1,353,215	-	-	-	1,353,215	1,353,215
Hedging derivatives		50,191	-	-	-	50,191	50,191
Amounts due to customers	31	-	-	-	32,136,698	32,136,698	32,135,871
		1,403,406	**-**	**-**	**33,705,074**	**35,108,480**	**35,107,751**

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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 2018

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	19	955,120	1,281,956	-	2,237,076
derivatives		722	1,281,955	-	1,282,677
debt securities		931,171	1	-	931,172
equity instruments		23,227	-	-	23,227
Debt investment financial assets measured at fair value through other comprehensive income	21	14,241,363	-	-	14,241,363
Equity and other instruments measured at fair value through income statement	23	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

** Corresponds to item "Debt securities available-for-sale" under IAS 39.*

*** Corresponds to item "Equity investments available-for-sale" under IAS 39.*

As at 31 December 2017*

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	19	1,161,980	1,017,945	-	2,179,925
derivatives		188	1,017,944	-	1,018,132
debt securities		1,143,907	1	-	1,143,908
equity instruments		17,885	-	-	17,885
Hedging derivatives		-	-	-	-
Debt securities available-for-sale	21	16,007,151	1,432,288	-	17,439,439
Equity investments available-for-sale		1,316	-	23,062	24,378
Financial liabilities					
Financial liabilities held-for-trading	19	2,249	1,350,966	-	1,353,215
short sale of securities		2,184	-	-	2,184
derivatives		65	1,350,966	-	1,351,031
Hedging derivatives		-	50,191	-	50,191

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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

On the 31st of December 2017 that amount includes the share of PLN 23,062 thousand in Visa Inc.

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:

PLN '000	1.01-31.12.2018
	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**

PLN '000	1.01-31.12.2017*
	Financial assets available-for-sale
	Equity investments
As at 1 January 2017	**18,965**
Revaluation	4,097
As at the end of period	**23,062**

On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods

In 2018 and 2017, 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.

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

The methods of valuation mentioned above are classifies to the third level of the fair valuefinancial 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.

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

40. Derecognition of financial assets

In accordance with the amendments to IAS 1 'Presentation of financial statement', which result from adopting IFRS 9, the Group is obligated to disclose net gain/(loss) on derecognition of financial assets. That amount in Group comes down to gain on debt investment financial assets measured at fair value through other comprehensive income and amounted to 112,631 thousand PLN 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 (befora IFRS 9 application in item Net gain on debt investment securities available-for-sale").

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

41. Contingent liabilities and litigation proceedings

Information on pending proceedings

In 2018, there was no single proceeding regarding receivables and liabilities of the Bank or a subsidiary of the Bank, the value of which would be equal to at least 10% of equity, pending in court, before a public administration authority or an arbitration authority.

The total value of all pending legal proceedings regarding receivables or liabilities with the participation of the Bank and subsidiaries of the Bank did not exceed 10% of the Bank's equity in 2018.

Total value of liabilities of the Bank and its subsidiaries on all pending legal proceedings did not exceed 10% of the Bank's equity in 2018.

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

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

As at 31 December 2018, 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. Additionally, during this time, the Bank was involved in two closing proceedings that were legally terminated, both resolved in the Banks favor (one in which the Bank was a plaintiff and one as a defendant). The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank.

The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks – issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressees of the President of UOKiK's decision in the case. The proceedings have concerned alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was the subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set in the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. The verdict is binding and enforceable. Due to the Banks submitted extraordinary appeal on the 25 October 2017 the Supreme Court has overturned the Appeal Court's verdict and the case has been returned to the Appeal Court for a second review. The appeals proceedings has begun again. In the first quarter of 2018, the Bank received the reimbursed of the fine which was recognized in the profit and loss. During the trial on October 24, 2018 no significant settlements were made. The trial is postponed for an indefinite period.

On Janury 2019, the Bank became aware of the filing of lawsuits by two prevous agentes, Rigall Arteria Management Ltd. with registered office in Warsaw and Rotsa Sales Direct Ltd. with registered office in Katowice.The lawsuits concerned claims related to agency agreements which in the past merged agents with the Bank and which expired as a result of termination by the Bank in 2014.

As at the date of this report, these claims have not been delivered to the Bank.

In the Bank's opinion, lawsuits may relate to claims on account of commission from agreements concluded during the term of the agency agreement with customers, acquired by agents for agreements of the same type (cross-sell commission) and for payment of compensatory benefit.

In the Bank's opinion, the amount of claims filed by 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.

In 2018, 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	31.12.2018	31.12.2017
Contingent liabilities and guarantees granted		
Letters of credit	137,669	167,983
Guarantees granted	2,589,013	2,312,023
Credit lines granted	14,023,057	14,292,534
Underwriting other issuers' securities issues	47,587	43,942
	16,797,326	**16,816,482**

PLN '000	31.12.2018	31.12.2017
Letters of credit		
Import letters of credit issued	137,669	148,607
Export letters of credit confirmed	-	19,376
	137,669	**167,983**

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

The provisions of contingent liabilities and guarantees granted by the Group are established. As at 31 December, 2018 the amount of provisions of granted contingent liabilities and guarantees was PLN 26,481 thousand (31 December 2017: PLN 12,789 thousand).

Movement in loss allowance – contingent liabilities and guarantees granted presents as follows:

PLN '000	Stage 1	Stage 2	Stage 3	Total
Loss allowance - contingent liabilities and guarantees granted				
Loss allowance as at 31 December 2017	**-**	**-**	**-**	**12,789**
Impact of adopting IFRS 9	-	-	-	22,886
Loss allowance 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)/Realeses in the period though the income statement	(5,086)	(676)	(3,693)	(9,455)
Foreign exchange and other movements	237	28	(4)	261
Loss allowance 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 loss allowance 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 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	31.12.2018	31.12.2017
Financial and guarantees liabilities received		
Finance	-	-
Guarantees	19,278,757	18,142,380
	19,278,757	**18,142,380**

42. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2018	31.12.2017
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	115,208	9,085
credit received	1,668	36,970
	116,876	**46,055**

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

PLN'000	31.12.2018	31.12.2017
Assets pledged		
Debt securities held-for-trading	88,806	9,079
Debt investment financial assets measured at fair value through other comprehensive income*	170,908	334,396
Financial assets measured at amortized cost (reverse repo)	25,166	-
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market trading	118,364	505,526
Amounts due from customers		
Stock market trading guarantee funds and settlements	362,807	365,788
	766,051	**1,214,789**

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

Debt investment financial assets measured at fair value through other comprehensive income as at 31 December 2018 constitute collateral of the Bank's obligations under securities sold with a repurchase agreement.

As at 31 December 2018, the debt investment financial assets 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 168,106 thousand (31 December 2017: PLN 183,843 thousand) collateral against credit received: PLN 2,802 thousand (31 Decemeber 2017:PLN 150,553 thousand).

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 36.

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

43. 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 2018, the Bank maintained over 14.3 thousand securities accounts (31 December 2017: approx. 9.2 thousand accounts).

44. Operating leases

Leases where the Group is the lessee

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

PLN'000	31.12.2018	31.12.2017
Less than 1 year	3,234	4,399
Between 1 and 5 years	28,154	28,734
More than 5 years	27,331	18,974
	58,719	**52,107**
Total annual rentals for contracts for an unspecified period of time	**173**	**673**

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

Most of the office space lease contracts are signed for 5 years with the option of extension for another three years; however, some contracts have been signed for a period up to 1 year and some for more than 10 years. Lease payments are subject to annual indexation. The total amount of lease payments in 2018 amounted to PLN 21,074 thousand (in 2017: PLN 21,548 thousand).

The car leases are signed for 4 years. Lease payments are based on a fixed interest rate throughout the lease period. In 2018, total amount of leasing fees amounted to PLN 2,030 thousand (in 2017: PLN 4,951 thousand).

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

Leases where the Group is the lessor

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

PLN'000	31.12.2018	31.12.2017
Less than 1 year	41	28
Between 1 and 5 years	6,976	2,958
More than 5 years	-	3,363
	7,017	**6,349**
Total annual rentals for contracts for an unspecified period of time	**5,780**	**6,160**

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

Most of the office space lease contracts are signed for an unspecified period of time. Other contracts are signed for a period of between 2 and 10 years. Lease payments are subject to annual indexation. The income related to these contracts amounted in 2018 to PLN 8,431 thousand (in 2017: PLN 9,019 thousand).

These payments are presented in the income statement in "Other operating income."

45. Additional information to the statement of cash flows

Cash and cash equivalents

PLN'000	31.12.2018	31.12.2017
Cash related items:		
Cash in hand	422,064	431,574
Nostro current account in Central Bank	6,850,088	29,031
Current accounts in other banks (nostro, overdrafts on loro accounts)	202,826	53,980
	7,474,978	**514,585**

46. Transactions with the key management personnel

PLN'000	31.12.2018		31.12.2017	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**165**	**-**	**174**	**48**
Deposits				
Current accounts	8,969	2,307	9,246	3,508
Term deposits	7,695	380	7,935	450
	16,664	**2,687**	**17,181**	**3,958**

As at 31 December 2018 and 31 December 2017, 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.

47. Related parties

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

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

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

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

Transactions with Citigroup Inc. entities

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

PLN'000	31.12.2018	31.12.2017
Receivables, including:	172,180	361,827
Placements	-	-
Liabilities, including:	780,029	1,078,905
Deposits*	218,934	254,814
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	449,183	446,178
Assets of derivative hedging instruments	-	-
Liabilities held-for-trading	379,293	716,669
Liabilities due to hedging derivatives	-	17,507
Contingent liabilities granted	439,748	373,018
Contingent liabilities received	34,834	71,587
Contingent transactions in derivative instruments (nominal value), including:	57,380,600	40,741,781
Interest rate instruments	28,293,455	25,946,494
Interest rate swaps (IRS)	6,740,216	9,456,993
Currency - interest rate swaps (CIRS)	20,561,934	15,566,804
Interest rate options	963,107	894,863
Futures contracts	28,198	27,834
Currency instruments	28,881,240	14,591,578
FX forward/spot	605,006	745,294
FX swap	26,994,552	11,687,926
Foreign exchange options	1,281,682	2,158,358
Securities transactions	101,504	100,674
Securities purchased pending delivery	48,266	79,250
Securities sold pending delivery	53,238	21,424
Commodity transactions	104,401	103,035
Swaps	104,401	92,688
Options	-	10,347

** including deposits from parent company in the amount of PLN 9 thousand (31 December 2017: PLN 7 thousand)*

PLN'000	2018	2017
Interest and commission income*	35,734	55,347
Interest and commission expense*	30,061	42,918
General administrative expenses	169,775	184,019
Other operating income	7,092	8,467

** including interest and commission income in amount of PLN 1,505 thousand (2017: PLN 1,431 thousand) and interest and commission expense in amount of PLN 2 thousand (2017 : PLN 5 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 2018 amounted to PLN 69,890 thousand (as at 31 December 2017: PLN (287,998) 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 2018 and 2017 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 2018 the capitalization of investments regarding functionality modification of retail banking IT systems took place. Total payments for Citigroup Inc. entities amounted to PLN 32,912 thousand (in 2017: PLN 79,805 thousand).

48. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the income statement in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense;
- benefits after termination of employment – including retirement allowances (see Note 2) and pension plans presented below offered by the Group to its staff.

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

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

Description of the Employee Pension Plan

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

The basic contribution paid by the employer is defined as a percentage of salary of the Plan member. The basic contribution rate amounts to 7%. The additional contribution – voluntary, is paid by an employee – the Plan participant. The minimum amount of the monthly additional contribution is PLN 10,00 and the maximum amount of the additional contribution is limited to the amount resulting from Announcement of Minister of Labour and Social Policy regarding value of corresponding sum of additional contributions made by participator Plan in concerned year, based on articles 25 item 4a Act of 20 April 2004 regarding employee pension plan (Journal of Law of 2016, item 1449). The basic contribution is the Plan participant's income, from which he is obligated to pay the personal income tax (articles 12 and 13 of the Act on the income tax from individuals of 26 July 1991, Official Journal from 2016, item 2032 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. 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. Valuation and presentation principles of these programs are described in Note 2 in "Share-based payments." In 2017 there were no employees rewarded as part of the stock award programs based on Citigroup shares. 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	31.12.2018	31.12.2017
Provision for remuneration	56,281	55,410
Previsions for unused leave	12,194	14,326
Provision for employees' retirement and pension benefits	58,340	51,769
Provision for employees' equity compensation	15,456	15,719
Provision for workforce restructuring	-	429
	142,271	**137,653**

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 2018, 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 3.00% and wage growth rate at 2.5%.

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

PLN'000	2018	2017
	Provision for retirement allowances	Provision for retirement allowances
As at 1 January	**51,768**	**41,936**
Increases (due to):	9,473	11,669
Actuarial profit/loss on revaluation	3,507	412
Including those resulting from:		
Change of economic assumptions	4,615	2,073
Change of demographic assumptions	93	227
Experience adjustment	(1,201)	(1,888)
Remuneration cost	4,106	3,111
Interest cost	1,860	1,468
Past employment cost	-	6,678
Decreases (due to):	(2,902)	(1,837)
Provisions utilisation	(2,902)	(1,837)
As at 31 December	**58,339**	**51,768**

Analysis of sensitivity for significant actuarial assumptions:

PLN'000	2018	2017
	Provision for retirement and pension allowances	Provision for retirement and pension allowances
Central value	58,340	51,768
Decrease of growth salary to 1 p.p.	51,403	45,877
Increase of growth salary to 1 p.p.	66,488	58,702
Decrease of rotation by 10%	61,111	58,511
Increase of rotation by 10%	55,804	49,584
Decrease of discount rate by 0.5 p.p., including:	61,911	53,382
Falling to benefits paid within 1 year	3,952	5,038
Increase of discount rate by 0.5 p.p., including:	54,765	50,226
Falling to benefits paid within 1 year	3,946	5,037

More information abouth specific services programs in the Banks financial report can be found in note 2.

In 2018, the Group's expenses in respect of premiums for the employee pension plan amounted to PLN 23,757 thousand (in 2017: PLN 23,528 thousand).

Employment in the Group:

FTEs	2018	2017
Average employment during the year	3,413	3,561
Employment at the end of the year	3,276	3,487

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 2018 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 2018 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. The Policy implemented as of 22 december 2017, introducing changes among other to the fields of postponements and retention had an effect on the varying remuneration granted conditionally in 2018.

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	18 of January 2016 16 of January 2017 15 of January 2018
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 2016 and 2017 – at least 6, 18, 30 and 42 months after grant date – in 2018 roku – 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 2016 and 2017 – at least 6, 12, 24 and 36 months after grant date – in 2018 roku – at least 12, 24, 36, 48, 60 • Phantom Shares granted in 2016-2018 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 • 2016: in relation to the award from 2016-2019 • 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
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	18 of January 2016 16 of January 2017 14 of January 2018
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 – in 2016 and 2017 – at least 18, 30 and 42 months after grant date – in 2018 roku – at least 18, 30, 42, 54, 66 • Deferred Cash Award granted in 2016-2018 for other employees – at least 18, 30, 42 months after grant date
Vesting date	• Deferred Cash Award for the President of the Management Board – in 2016 and 2017 – at least 12, 24 and 36 months after grant date – in 2018 roku – at least 12, 24, 36, 48, 60 • Deferred Cash Award granted in 2016-2018 for other employees – at least 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 • 2016: in relation to the award from 2016-2019 • 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
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 2016, 2017 and 2018. 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	16.02.2015	50.07	2	250
2	16.02.2016	37.05	1	401

Phantom Shares Program	Grant date	Exercise price/stock price at grant date [PLN]	Number of eligible employees	Number of options/ shares
1	18.01.2016	72.21	46	20,202
2	16.01.2017	77.31	44	32,840
3	15.01.2018	83.02	43	59,712

	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 3 following years, 60% after a year and 8% after 5 following years
Expected average life cycle of the instrument	At the time of rights acquisition	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)	50.24 (USD)	69.30 (PLN)

* *Varies depending on the date of exercise.*

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

	31.12.2018		31.12.2017	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	2,482	46,69	5,850	46.82
Allocated in the period	-	-	-	-
Executed/redeemed/expired in the period	1,831	-	3,368	-
At the end of the period	651	42.05	2,482	46.69

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

	31.12.2018		31.12.2017	
	Number	Weighted average share price [PLN]	Number	Weighted average share price [PLN]
At the beginning of the period	110,631	80.19	123,597	88.00
Allocated in the period	115,643	83.02	115,855	77.31
Executed in the period	111,950	71.55	127,369	68.37
Redeemed/expired in the period	1,570	-	1,452	-
At the end of the period	112,754	79.42	110,631	80.19

On 31 December 2018, the book value of liabilities from the phantom share and CAP programs amounted to PLN 25,635 thousand (31 December 2017: PLN 25,105 thousand). The costs recognized in this respect in 2018 amounted to PLN 8,809 thousand (in 2017: 7,196 including the costs of SOP programs).

49. 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 2018, the Management Board considered the following type of risk as significant:

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

- Model risk,
- Outsourcing risk,
- Information security risk (including cyber 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 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 or organization. As at 31 December 2018, 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 8,792,580 thousand, i.e., 177% of equity (31 December 2017: PLN 7,286,844 thousand, i.e., 151%). In 2018 and 2017 the Group complied with the provisions on limits of concentration of exposure.

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

PLN'000	31.12.2018			31.12.2017		
	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
GROUP 1	799,072	202,774	1,001,846	828,101	115,658	943,759
CLIENT 2	1,000,000	-	1,000,000	1,000,000	-	1,000,000
CLIENT 3	310,424	628,978	939,402	251,522	475,980	727,502
GROUP 4	332,064	472,010	804,074	261,317	574,317	835,634
CLIENT 5	263,100	486,900	750,000	191,400	558,600	750,000
GROUP 6	537,517	180,813	718,330	557,053	83,530	640,583
GROUP 7	107,523	521,365	628,888	18	618,348	618,366
GROUP 8	369,570	253,147	622,717	140,852	150,639	291,491
CLIENT 9	523,638	81,562	605,200	396,000	205,185	601,185
CLIENT 10	600,000	-	600,000	600,000	-	600,000
GROUP 11	-	-	-	74,439	495,376	569,815
Total	**4,842,908**	**2,827,549**	**7,670,457**	**4,300,702**	**3,277,633**	**7,578,335**

* *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 2018, the Group had an exposure to one entity exceeding the statutory exposure concentration limits. The excess exposure resulted from trade portfolio transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Group's total capital requirement as at 31 December 2018.

*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*	31.12.2018		31.12.2017	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,695,369	17.5%	4,458,077	18.3%
Financial intermediation, excluding insurance and pension funds	3,385,386	12.6%	3,039,423	12.5%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,760,531	10.3%	2,645,822	10.8%
Retail trade, excluding retail trade in vehicles	1,084,312	4.0%	825,311	3.4%
Production of food and beverages	1,065,354	4.0%	1,071,761	4.4%
Activities of head offices; consulting related to the management	1,028,293	3.8%	592,729	2.4%
Metal ore mining	939,402	3.5%	727,502	3.0%
Production of metal goods, excluding machines and equipment	929,839	3.5%	657,375	2.7%
Production and processing of coke and petroleum products	893,827	3.3%	884,023	3.6%
Production of motor vehicles, trailers and semi-trailers, excluding motorcycles	862,454	3.2%	633,978	2.6%
10 business sectors	**17,644,767**	**65.7%**	**15,536,001**	**63.7%**
Other sectors	**9,209,893**	**34.3%**	**8,855,908**	**36.3%**
Total	**26,854,660**	**100.0%**	**24,391,909**	**100.0%**

* *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	31.12.2018	31.12.2017
Gross amounts due from economic entities and Groups		
Financial	3,610,978	2,891,771
Production	4,282,171	4,042,489
Services	4,795,159	4,529,653
Other	3,730,135	2,718,123
	16,418,443	**14,182,036**
Gross amounts due from individual customers	**7,535,018**	**7,092,665**
(see Note 18, 23)	**23,953,461**	**21,274,701**

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.

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 indentify 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 overdues of Stages for institutional banking portfolio also confirmed this assumption. The analysis of 30 days overdue payments indicated the lack of correlations with abovemensioned 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.

Write-offs 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, type of restructuring carried out 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 foreborne categories, the quantitative criterion is applied – analysis of the change in PD level since the exposure was created. In accorance with the standard, the Group doos not use the a fixed threshold above which an increase in risk would automatically be considered significant. It results from the fact that the same increse 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 maximised.

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

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

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

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

- the reference rate NBP,
- annual amandment of index WIG20,

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

- unemployment rate,
- unemployment rate „BAEL",
- annual amandment 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 write-offs were reflected in actual losses. In addition, the models used for determining reserves are subject to evaluation by an independent Model Validation Office.

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

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

PLN'000	Nota	31.12.2018	31.12.2017
Gross receivables due from the Central Bank	17	6,850,129	30,552
Gross receivables due from banks	18	1,337,887	837,885
Gross receivables due from institutional customers**		15,080,556	13,344,151
Gross receivables due from individual customers***		7,535,018	7,092,665
Debt securities held-for-trading	19	931,172	1,143,908
Derivative instruments	19	1,282,677	1,018,132
Debt investment financial assets measured at fair value though other comprehensive income****	20	14,241,363	17,439,439
Other financial assets	28	160,823	263,119
Contingent liabilities granted	41	16,797,326	16,816,482
		64,216,951	**57,986,333**

* *As at January 1, 2018, the Group applied IFRS 9 „Financial Instruments" for the first time and did not use the option of converting data relating to earlier periods.*

** *As at December 31, 2018, the value of collateral diminishing the maximum exposure to credit risk for receivables from institutional clients amounted to PLN 2,708,768 thousand (31 December 2017: PLN 2 279 820 thousand).*

*** *As at December 31, 2018, the value of collateral to reduce the maximum exposure to credit risk for receivables from individual clients amounted to PLN 1 676,541 thousand. PLN (31 December 2017: PLN 1 481 839 thousand).*

**** *Corresponds to the item ‚Debt securities available for sale' according to IAS 39.*

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 2018 amouted to PLN 36 thousand and net modification loss in 2018 amounted to PLN 4 thousand.

Gross value of financial assets, that since the start of recognition were modified at the moment, when the provision for losses were measured at amount corresponding to expected credit loss throughout the life period, and in case of provisions for losses was affected in 2018 at amount corresponding to 12 months expected credit losses as at December 31, 2018 amount to PLN 63 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 write-offs.

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.

Commitment due to customers in terms of credit risk:

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.

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 write-downs	(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 write-downs	(16,387)	(58,389)	-
Net amount	**815,731**	**751,593**	**2**
Not impaired receivables (Stage 1)			
By risk rating			
Risk rating 1-4-	11,576,050	-	822,928
Risk rating +5-6-	2,324,349	-	514,957
By delinquency			
No delinquency	-	6,140,959	-
1-30 days	-	205,627	-
31-90 days	-	-	-
Gross amount	**13,900,399**	**6,346,586**	**1,337,885**
Impairment write-downs	(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 write-downs	(289,458)	(377,102)	(3,910)
Total net value	**14,791,098**	**7,157,916**	**1,333,977**

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 2017:

PLN '000	31.12.2017*		
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks
Impaired receivables			
Individual receivables			
Gross amount	**378,937**	**10,898**	**-**
Impairment write-off	(257,059)	(6,633)	-
Net amount	**121,878**	**4,265**	**-**
Portfolio receivables			
Gross amount	**23,350**	**309,417**	**-**
Impairment write-off	(17,723)	(227,000)	-
Net amount	**5,627**	**82,417**	**-**
Not impaired receivables			
by risk rating			
Risk rating 1-4-	9,715,661	-	806,362
Risk rating +5-6-	3,070,022	-	31,523
Risk rating +7 and greater	156,181	-	-
by delinquency			
no delinquency	-	6,437,196	-
1-30 days	-	283,109	-
31-90 days	-	52,045	-
Gross amount	**12,941,864**	**6,772,350**	**837,885**
Impairment	(17,462)	(61,906)	(1,111)
Net amount	**12,924,402**	**6,710,444**	**836,774**
Total net amount	**13,051,907**	**6,797,126**	**836,774**

* *As at January 1, 2018, the Group applied IFRS 9 „Financial Instruments" for the first time and did not use the option of converting data relating to earlier.*

Structure of derivatives in terms of credit risk:

PLN '000	31.12.2018			31.12.2017		
	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-	579,490	5,006	676,910	234,724	4,632	753,408
Risk rating+5-6-	7,178	-	14,088	25,090	-	2
Risk rating +7 and greater	5	-	-	276	-	-
Total	**586,673**	**5,006**	**690,998**	**260,090**	**4,632**	**753,410**

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	31.12.2018		31.12.2017	
	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)	931,172	14,241,363	1,143,908	17,439,439
Total	**931,172**	**14,241,363**	**1,143,908**	**17,439,439**

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**

Structure of the granted contingent liabilities from the credit risk point of view as at December 31, 2017:

PLN '000	31.12.2017*	
	Liabilities due to institutional customers	Liabilities due to banks
Granted contingent liabilities by risk rating		
Risk rating 1-4-	7,188,531	383,555
Risk rating+5-6-	2,696,078	6,326
Risk rating +7and greater	58,102	-
Total	**9,942,711**	**389,881**

* *As at January 1, 2018, the Group applied IFRS 9 „Financial Instruments" for the first time and did not use the option of converting data relating to earlier periods.*

"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 expsure, 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 as at December 31, 2018:

PLN '000	As of 31.12.2018
Receivables without recognized impairment,	21,889,085
Receivables without recognized impairment (Stage1), including	20,246,985
non-financial sector entities	18,098,779
Institutional customers	11,752,193
Individual customers	6,346,586
Receivables without recognized impairment (Stage2), including	1,642,100
non-financial sector entities	1,642,100
Institutional customers	832,118
Individual customers	809,982
Receivables with recognized impairment(Stage 3), including:	726,489
non-financial sector entities	726,489
Institutional customers, including:	348,039
„forborne"	78,281
Individual customers, including:	378,450
„forborne"	19,791
Total gross amount, including:	**22,615,574**
non-financial sector entities	20,467,368
Institutional customers, including:	12,932,350
„forborne"	78,281
Individual customers, including:	7,535,018
„forborne"	19,791
Impairment write-off	**(666,560)**
On „forborne" receivables	(59,555)
Total net amounts due from customers, including:	**21,949,014**
„forborne" receivables	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.

Exposure values in "forborne" status as at 31 December 2017:

PLN '000	As of 31.12.2017*
Receivables without recognized impairment, including	19,714,214
non-financial sector entities	17,718,859
Institutional customers	10,946,509
Individual customers	6,772,350
Receivables with recognized impairment, including:	722,602
non-financial sector entities	705,466
Institutional customers, including:	385,151
„forborne"	77,706
Individual customers, including:	320,315
„forborne"	19,556
Total gross amount, including:	**20,436,816**
non-financial sector entities	18,424,326
Institutional customers, including:	11,331,661
„forborne"	77,706
Individual customers, including:	7,092,665
„forborne"	19,556
Impairment write-off	**(587,783)**
On „forborne" receivables	(58,855)
Total net amounts due from customers, including:	**19,849,033**
„forborne" receivables	38,407

** As at January 1, 2018, the Group applied IFRS 9 „Financial Instruments" for the first time and did not use the option of converting data relating to earlier periods.*

LIQUIDITY RISK

Processes and organization of liquidity risk management

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

The objective of liquidity risk management is to ensure that the Group can meet all commitments to customers when due and to secure 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 i LCR were as follows:

w tys. zł	31.12.2018	31.12.2017	Change
M1 - Short-term liquidity gap (PLN)	6,517,776	8,380,500	(1,862,724)
M2 - Short-term liquidity ratio	1.18	1.37	(0.19)
M3 - Coverage of illiquid assets with regulatory capital	6.08	9.78	(3.70)
M4 - Coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	1.44	1.54	(0.10)
LCR*	168%	145%	23 pp

* *as a result of the repeated verification of comparative data as of 31.12.2016 presented in the semi-annual report for the first half of 2017, the LCR ratio was changed.*

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 2018 and 31 December 2017.

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

The cumulative liquidity gap as at 31 December 2017 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	16,614,355	339,546	430,224	267,540	25,385,931
Liabilities	7,108,604	4,079,663	41,611	1,630	31,806,088
Balance sheet gap in the period	9,505,751	(3,740,117)	388,613	265,910	(6,420,157)
Conditional derivative transactions - inflows	12,417,617	4,304,596	6,233,162	4,916,266	15,796,336
Conditional derivative transactions - outflows	12,595,697	4,368,368	6,280,209	5,114,049	15,629,002
Off-balance-sheet gap in the period	(178,080)	(63,772)	(47,047)	(197,783)	167,334
Potential utilization of credit lines granted	693,017	657,996	191,768	-	(1,542,781)
Cumulative gap	8,634,654	4,172,769	4,322,567	4,390,694	(319,348)

* *On 1.01.2018 the Group applied IFRS 9 "Financial Instruments" for the first time and used the option not to restate data relating to earlier periods.*

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

PLN'000	31.12.2018	31.12.2017	Change
Liquid assets, including:	22,229,407	18,805,370	3,424,037
nostro account in NBP and stable part of cash	7,056,872	222,023	6,834,849
debt securities held-for-trading	,931,172	1,143,908	(212,736)
debt financial assets measured at fair value through other comprehensive income**	14,241,363	17,439,439	(3,198,076)
Cumulative liquidity gap up to 1 year	6,230,476	4,322,567	1,907,909
Coverage of the gap with liquid assets	Positive gap	Positive gap	

* *On 1.01.2018 the Group applied IFRS 9 "Financial Instruments" for the first time and used the option not to restate data relating to earlier periods.*

** *Corresponds to item "Debt securities available-for-sale" under IAS 39.*

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 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	30	**1,402,233**	**1,384,456**	**2,683**	**15,000**	**43**	**51**
Financial liabilities held-for-trading							
Short positions in financial assets	19	348,130	348,130	-	-	-	-
Amounts due to customers, including:	31	**38,334,345**	**36,821,651**	**1,054,500**	**436,919**	**21,202**	**74**
Deposits from financial sector entities	31	7,040,000	7,037,511	396	2,072	-	21
Deposits from non-financial sector entities	31	31,057,448	29,633,784	1,040,283	363,370	19,959	53
Other liabilities	31	236,897	150,356	13,821	71,477	1,243	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	1,404,897	31,043	36,410	55,593	864,397	417,454
Unused credit lines liabilities	41	**14,023,057**	**11,133,577**	**7,008**	**578,036**	**2,132,056**	**172,380**
Guarantee lines	41	**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**

As at 31 December 2017

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	31	**1,568,376**	**1,512,790**	**6,635**	**42,594**	**6,314**	**43**
Financial liabilities held-for-trading							
Short positions in financial assets	19	-	-	-	-	-	-
Amounts due to customers*, including:	31	**32,136,699**	**30,838,063**	**903,453**	**363,892**	**31,219**	**72**
Deposits from financial sector entities	31	4,853,148	4,673,860	174,300	4,957	12	19
Deposits from non-financial sector entities	31	27,092,005	26,060,623	675,604	325,734	29,991	53
Other liabilities	31	191,546	103,580	53,549	33,201	1,216	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	749,655	11,601	32,601	62,037	406,488	236,928
Hedging derivatives		**50,191**	**-**	**-**	**-**	**49,392**	**799**
Unused credit lines liabilities	41	**14,292,534**	**11,380,710**	**2,174**	**176,805**	**2,231,647**	**501,198**
Guarantee lines	41	**2,355,965**	**2,355,965**	**-**	**-**	**-**	**-**
		51,153,420	**46,099,129**	**944,863**	**645,328**	**2,725,060**	**739,040**
Derivatives settled on a gross basis							
Inflows		42,812,185	12,660,817	4,245,328	6,358,651	12,219,978	7,327,411
Outflows		43,030,215	12,663,748	4,310,234	6,370,062	12,391,474	7,294,697
		(218,030)	**(2,931)**	**(64,906)**	**(11,411)**	**(171,496)**	**32,714**

** In 2017, margins' presentation of was changed by transferring them from the term Deposits to Other Liabilities, comparative data were changed accordingly*

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 2018 and 31 December 2016. 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	31.12.2018		31.12.2017	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	10,444	87,021	29,217	163,736
USD	16,798	31,102	18,002	32,083
EUR	(3,103)	1,973	(409)	(6,467)

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	31.12.2018			Total in the period 1.01.2018-31.12.2018		
	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)

PLN '000	31.12.2017			Total in the period 1.01.2017-31.12.2017		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(1,813)	(2,560)	747	(1,337)	(487)	(2,215)
USD	(18)	(18)	-	(125)	(18)	(255)
EUR	(451)	(451)	-	(539)	(423)	(593)

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 2018 are presented in the table below:

PLN'000	31.12.2018	31.12.2017	In the period 1.01.2018-31.12.2018		
			Average	Maximum	Minimum
PLN	671	313	194	1,106	(710)
EUR	100	73	56	168	(61)
USD	54	9	53	384	(21)

Average exposures to the interest rate risk in the local currency in 2018 was higher comparing to the level from the previous year and amounted to PLN 433 thousand. Average exposure to the interest rate risk in EUR was higher than in 2017 (DV01 amounted to PLN 70 thousand, compared to PLN 57 thousand in the previous year). Average exposure in USD was higher than in 2017 (DV01 amounted to PLN 68 thousand, compared to PLN 46 thousand in 2017). The maximum exposure in PLN of the biggest exposures accepted by the Treasury Division was PLN 1,106 thousand compared to PLN 839 thousand in 2017 and the position in EUR amounted to PLN 168 thousand compared to PLN 127 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 2018:

PLN'000	31.12.2018	31.12.2017	In the period 1.01.2018-31.12.2018		
			Average	Maximum	Minimum
Currency risk	174	289	738	3,592	105
Interest rate risk	6,889	3,499	5,609	14,274	1,682
Spread risk	2,612	6,202	4,294	7,509	1,619
Total risk	**7,334**	**7,347**	**7,780**	**15,043**	**4,371**

The overall average level of the market risk of the trading portfolios was 4% lower in 2018 than the average level in 2017, representing an increase by over PLN 869 thousand, mainly as a result of higher exposures to credit spread changes. The maximum price risk level was PLN 15,043 thousand, compared to PLN 15,198 thousand in 2017.

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:

31.12.2018

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.*

31.12.2017

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,740,247	4,466,023	15,467,548	14,648,480	93,292
USD	1,103,591	3,751,787	11,883,166	9,222,515	12,455
GBP	14,454	396,063	412,574	31195	(230)
CHF	339,293	223,461	1,685,061	1,791,647	9,246
Other currencies	38,561	211,370	1,872,809	1,680,813	19187
	5,236,146	**9,048,704**	**31,321,158**	**27,374,650**	**133,950**

* *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, heatmap, 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 7,056,750 thousand as at 31 December 2018 (as at 31 December 2017: PLN 6,938,883 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 4,970,103 thousand (as at 31 December 2017: PLN 4,981,895 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

Capital adequacy ratio*

	PLN'000	31.12.2018	31.12.2017
I	**Common Equity Tier 1 Capital**	**4,970,103**	**4,981,895**
II	**Total capital requirements, including:**	**2,361,451**	**2,230,567**
	credit risk capital requirements	1,893,873	1,749,046
	counterparty risk capital requirements	50,745	57,819
	Credit valuation correction capital requrements	28,466	49,033
	excess concentration and large exposures risks capital requirements	12,459	3,746
	total market risk capital requirements	95,391	82,411
	operational risk capital requirements	280,517	288,512
	Common Equity Tier 1 Capital ratio	**16.8%**	**17.9%**

* *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.*

In 2018, as well as in 2017, the Group complied with all the regulatory prudential standards on capital adequacy.

50. Subsequent events

As from 1 February 2019 by the decision of the Supervisory Board of Bank from 7 December, 2018, James Foley was appointed to perform the function of a member of the Management Board of Bank for a three-year term of office. James Foley within the division of his competences will be responsible for the transactional banking area.

After 31 December 2018 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

21.03.2019	Sławomir S. Sikora	President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Natalia Bożek	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Maciej Kropidłowski	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	David Mouillé	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Barbara Sobala	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	James Foley	Member of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Katarzyna Majewska	Member of the Management Board	
Date	Name	Position/function	Signature

Report on activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2018

March 2019

In accordance with § 71 item 8 of the Ordinance of the Minister of Finance on current and periodical information provided by issuers of securities and the conditions for regarding information required by the law of non-member state as equivalent dated 29 March 2018 (Journal of Laws of 2018, item 757, as amended), report on activities of the Bank and the Group was prepared in the single report. The information in the report refer to the Group (including the Bank) or only to the Bank as specified in the individual chapters, tables or descriptions.

CONTENTS

I. Introduction

1. Description of activities of the Bank Handlowy w Warszawie S.A.

Bank Handlowy w Warszawie S.A. is strategically focused on its defined target market comprising the areas of Institutional Banking and Consumer Banking.

In the institutional client segment, Citi Handlowy focuses on fostering its leading position among banks which provide services to international corporations and the largest local companies. Small and medium enterprises sector (SME) is another group of clients which is significant for the Group. Concentration on acquiring new clients coupled with efforts to strengthen relations with the existing clients from selected industries, as well as support for clients who seek their business opportunities abroad (the initiative Emerging Market Champions) are the key for building the Group's market position. The Group ,s objective is to play the role of Strategic Partner to Polish enterprises, who actively supports the expansion of the Polish industry. This is tangibly reflected in the Bank's product offer with foreign exchange transactions and products associated with trade finance and secure trade transactions being its important and inextricable part. Furthermore, the Bank strives to maintain the status of one of the safest venue for keeping institutional clients' savings, which delivers many state-of-the art and useful solutions in operational accounts and day-to-day cash management.

The Bank's sound capital position and its landmark network of international connections, is also appreciated by consumer banking clients. The Bank uses its competitive edge in this regard to foster its leader position in net worth clients banking. Aim-driven, the Bank is constantly developing its offer for Citigold clients and a unique offer – Citigold Private Client, which was launched at the end of 2015 for the most affluent clients. In the retail segment, the Bank focuses on investment products and unique rewards for clients who decide to use the Bank's online wealth management products. The Bank's geographic breadth thanks to its international connections, makes the offer for individual clients more attractive and a unique experience in global banking.

Other individual clients, notably emerging affluent clients for whom the Bank develops a special proposition – Citi Priority, also are very important for the Bank. Citi Handlowy refines its package solutions to foster deposit based relations with clients from that segment and to address at the same time their lending needs.

Moreover, Citi Handlowy is an undisputed industry leader in credit cards with access to products from Citi global product range, accepted worldwide and providing exceptional value to the client, such as, among other rewards, loyalty reward schemes. The Bank aims at further strengthening its market share in non-secured credit products by satisfying lending needs and increasing the number of clients relying on its competitive cash loan or instalment product offer as well as innovative and agile processes.

And Dom Maklerski Banku Handlowego S.A. (DMBH) (the Brokerage House of Bank Handlowy) is one of the most active actors in Poland's capital market and one of the leaders in terms of share in turnover on the Warsaw Stock Exchange.

2. History of the Bank Handlowy w Warszawie S.A.

Founded in 1870, Bank Handlowy w Warszawie S.A. is the oldest commercial bank in Poland today and one of the oldest continuously operating banks in Europe. After 148 years in the market, Bank Handlowy has developed a strong brand.

Since 2001, the Bank has been a part of Citigroup, a global financial institution, and has since operated in Poland under the brand name of Citi Handlowy.

Today, under the brand name Citi Handlowy, Bank Handlowy w Warszawie SA offers a broad and modern range of products and services of corporate, investment and retail banking. Affiliation with Citi, the leading global financial institution, ensures that clients of Citi Handlowy have access to financial services in more than 100 countries.

Citigroup is a leading global provider of financial services. Its customer base totals approx. 200 million clients, including consumers, corporations, governments and their agencies, and various institutions in more than 100 countries. It offers a wide range of financial products and services including corporate and investment banking, consumer banking, credits, insurance, securities market services and asset management. For more information, please visit www.citigroup.com

3. Major developments in 2018

The year 2018 was the time of implementation of the growth strategy in the key areas of the Group activities, which is confirmed by the following achievements and events:

- **Rapid growth of lending** at the Bank: **institutional clients +13% YoY** (asset increase in all segments: corporate clients +16% YoY, global clients +16% YoY, commercial bank +6% YoY) and **retail clients +5% YoY** (record high sales of mortgage loans: PLN 357 million or +12% YoY);;
- **Consistent development of relationship banking:** loan volumes of retail clients rose by 15% YoY thanks to acquisition of new clients in a strategic client group – Citi Private Clients (+8% YoY);
- **Profitability ratios significantly above the banking sector levels:** ROE – 10.0% vs. 7.2% in the banking sector and ROA – 1.40% vs. 0,80% in the banking sector;
- **Digitization of the consumer banking model:**
  - **More digital users** – the number of mobile banking users increased by 22% from the end of 2017;
  - **Digitization of acquisition** – sales of cash products via profiled offers on the Citibank Online platform nearly doubled as compared to the end of 2017;
  - **Launch of the Google Pay telephone payment services;**
- **Implementation of the Citi Specials benefit program** – privileges attached to payment cards of the Bank, such as shopping discounts, a new loyalty program and limited offerings – as a result the card transaction rate increased by 5% YoY;
- **The Bank defended its leading position in the FX market** – FX transaction volumes rose by 3% YoY and the majority of those transactions are executed via the Citi FX Pulse platform. Citi FX Pulse also operates as an access channel to more than 130 currencies, which makes it a valuable choice for e-commerce companies;
- **First corporate card for senior management in the market** – the Business Executive card is a unique solution in Poland's market which combines access to Citi banking systems and a package of benefits and privileges, for example fast track, priority pass or iPass, which support international business operations and help running them in a transparent and friendly manner;

- **Capital security** of the Bank is maintained at a high level: high quality of assets and capitals with Tier 1 ratio at 16.8%. Tier 1 ratio is about 5.2 p.p. above the minimum capital thresholds;
- **Shareholder value building** – secure and stable position of the Bank, confirmed by a consistent dividend policy. Simultaneously, the Bank was again included in the next edition of the RESPECT Index, i.e. a WSE index of the companies that are most committed to the society. Citi Handlowy is one of only two banks incessantly included in the index from its first edition.

4. Strategy 2019–2021 – development prospects for the Bank Handlowy w Warszawie S.A.

4.1 General development objectives of the Group

In December 2018, the Supervisory Board of the Bank approved the new Strategy of Bank Handlowy w Warszawie S.A. Group for 2019–2021. The key assumption of the Strategy is to expand client operations, which are to contribute to accomplishment of the following financial objectives:

- High one-digit annual-average growth of credit volumes in the retail banking segment and the medium one-digit annual-average growth of credit volumes in the institutional banking segment;
- High one-digit annual-average growth of revenues from client operations;
- ROE constantly above 10% in 2019 – 2021 (in 2021 the Bank wants to exceed 12%) unless any future legal, regulatory or tax events occur which may affect this objective.

In order to achieve the annual-average growth of revenues from client operations at about 8% in the period covered by the strategy, the Group will implement new strategic initiatives in the segments of institutional and retail clients. Simultaneously, it is going to use existing competitive advantages to achieve growth in the following areas: unsecured retail loans, foreign exchange and cash management, Wealth Management services and services for clients looking for a global financial partner.

This is a good moment for the Group to increase its growth rate. It is possible thanks to its strong capital position and a good quality of its credit portfolio, and also high liquidity, which make a good launch pad for healthy growth. In addition, a significant competitive advantage is the global range and unique proposal for clients running international operations, travelling and investing in global markets. A vital success factor of the new strategy is also trust the clients have in the Group.

The Group will develop context banking in both corporate and retail dimension. One of the strategic target groups will be the Economy of the Future companies, with high growth potential (so called MME plus). The Group will deliver them comprehensive financial solutions to enable them to rapidly adapt their business models to the changing scale of activities. And individual clients will receive precisely tailored solutions exactly when they may need them. As a result of consistent investments in data management, the Group will provide its clients with solutions which meet their current needs, and will share its knowledge of international markets with dynamically growing companies to enable them to scale up their business.

The Bank will use and develop new technologies (for example in the area of artificial intelligence, machine learning, biometry or big data) to increase the effectiveness of its activities to reach to clients and to improve the quality of its services. Additionally, the Group will focus on the further digitization and streamlining of documentation and on the automation of processes, both in the area of client communication and its internal procedures.

The strategy of the Group for 2019–2021 includes a new organizational culture as one of its key elements. The Group will implement initiatives aimed at making significant changes to introduce more flexible working hours and workplace, to reinforce intergenerational dialogue, to promote a culture of acceptance of diversity in teams, to ensure work-life balance, to create new development paths, for example by increasing workforce mobility in the Group and Citi, and to strengthen the culture of recognition for everyday successes and achievements.

4.2 Institutional banking

In the Institutional Banking segment, the Bank is a leading provider of services to international corporations and the largest local companies. The segment strategy envisages initiatives to increase revenues from client operations. The most important initiatives in that area include a change of attitude to cooperation with fast growing companies of the new economy (MME+). These are businesses which want to grow beyond any limits and search for more complex banking solutions. The Bank offers such clients multi-product solutions which can meet their expectations (for example in the area of capital markets, debt instruments or international cash management) and is ready to provide appropriate financing. Using advanced data analysis techniques, the Bank is able to identify such companies at an early stage of development and offer them appropriate solutions, also on the basis of its global nature and know-how derived from many markets in the world. In addition, the Group discerns a significant potential to increase its revenues by participating in transformational transactions carried out by the largest corporate clients, also with involvement of private equity funds (e.g. LBO, IPO or M&A transactions). The Group also wants to maintain its leading position in the segment of global companies.

4.3 Brokerage activity

A key factor that contributes to DMBH's performance is the investment activity of institutional investors, which in turn depends on the equity market situation and inflows of funds. After 10 years of the global upward trend in the capital markets, we are now in the period of temporary declines. After the very difficult year 2018, during which stock market indices in Poland were hit by two-digit drops, extremely low activity in the IPO market and the undermined trust of investors, the year 2019 should bring a recovery. The introduction of Employee Capital Plans (PPK), which will accelerate in the second half of 2019, should positively affect Poland's capital market, especially in the long run (the PKKs should be fully implemented by 2021).

Simultaneously with regulatory changes (including in particular MIFID II), the concentration and share of remote members of the Warsaw Stock Exchange is on the rise. The largest actors compete more and more aggressively in the institutional client segment, which, historically, was the main area of operations of DMBH. DMBH implements technology projects aiming at further automation and improvement of processes and development towards solutions which ensure the cost effective service of local and international institutional clients which are interested in algorithmic trading and high-volume transactions.

In the face of changes in the market of brokerage services for institutional clients, the Group perceives as particularly important the development of the retail client segment, where it discerns various opportunities to continue activities to improve the effectiveness of cooperation between DMBH and the Bank.

Another vital area is capital market operations, where the Group wants to actively participate in IPO and SPO transactions.

4.4 Consumer banking

In 2019, the Bank will continue its strategy with regard to client segmentation and business model. According to its plans, the Bank will expand its products and services so that it can provide the highest value possible and meet, to the maximum extent, the financial needs of its clients in the target segments. The Bank will also continue the strategy of digitization of its products and services, by offering innovating and tailored solutions to its clients.

One of its strategic goals will be activities to strengthen its leading position in the affluent client segment. Aim-driven, the Bank will continue to develop its offer for Citigold clients and a unique offer – Citigold Private Client, which was launched at the end of 2015 for the most affluent clients – Citigold Private Client (CPC). The Bank is going to increase the portfolio of clients from those segments by proactive acquisition and reinforcement of relationships with existing clients. The Bank wants to enhance the product range for those clients, both in the traditional channel served by relationship managers and on electronic platforms. The Bank will review and update benefits offered to clients to ensure they represent the best response to their changing needs. For those client groups, the Bank will also continue cooperation with other Citi companies throughout the world in order to provide top quality services in the area of global banking.

The Bank will be still focused on acquisition of so called emerging affluent clients, by developing the Citi Priority offer, dedicated to that segment. Emerging affluent clients will have an opportunity to get to know a broad range of advisory services and products.

Moreover, the Bank will strive to strengthen the position of a leader in credit cards with access to products from Citi global range, accepted worldwide and providing exceptional value to the client, such as CitiSpecials Program. In 2019, the Bank will also start a strategic partnership program. The Bank wants to use strategic partnerships to raise the value created for clients and, by this, to considerably increase its acquisition of new clients.

In 2019, the Bank will also aim at strengthening its market share in non-secured credit products by satisfying lending needs and increasing the number of clients relying on its competitive cash loan or instalment product offer.

The Bank intends to continue its strategy in the area of retail branches, which will be concentrated in the largest cities throughout Poland. Simultaneously, the Bank will continue investing in its electronic platforms as its main client service channel and a more and more important source of new clients. In 2019, the Bank will offer its client a new mobile application and will start a fully-automated process for sales of credit cards and cash loans. The process will use biometric facial recognition for authentication purposes.

The Bank will continue initiatives which are to automate banking operations with the aim to optimize costs and improve client experience thanks to shorter and simplified processes.

In 2019, one of the key challenges and strategic goals of the Bank will be business preparations for the implementation and use of potential benefits arising from PSD2.

5. Awards and honors

In 2018, the Bank, DMBH and the Kronenberg Foundation at Citi Handlowy were awarded prestigious titles and rewards:

- For the third consecutive year, Citi Handlowy was rewarded with the **"Ethical Company" title from Puls Biznesu** and, as a result, became a **"Super Ethical Company"** as the only bank in that special category. Only eight other companies have been granted a right to use this title so far. The contest is to reward brands for which ethical conduct is a key and indispensable element of their presence in the market. From the first edition of the contest, Citi Handlowy has been ranked among its winners, i.e. companies that are most proactive in building and reinforcing an organizational culture founded on ethics and values using the most comprehensive and systemic approach in the process.
- For the twelfth time, Citi Handlowy was included in the **RESPECT Index**, the first index of socially responsible companies in Central and Eastern Europe, initiated by the Warsaw Stock Exchange. The Bank is one of the few listed companies awarded continuously since the inception of the index in 2009. Assessment is focused here on activities in the area of sustainable growth carried out within the framework of a long-term business strategy.
- Citi Handlowy took the 1st place in the competition organized by the Ministry of Finance to select **Treasury Securities Dealers (DSPW)** for 2018. It is another Bank's consecutive victory in the prestigious competition held since 2002, and at the same time a confirmation of its strong position in that segment of the market.
- Citi Handlowy has been honored with the title "Best Digital Bank in Poland" in the **"World's Best Consumer Digital Banks In Central & Eastern Europe 2018"** ranking prepared by the famous American "Global Finance" magazine. This honorable distinction has been granted to Citi Handlowy for top quality electronic banking services for retail clients. This achievement is confirmed by the number of the Bank's clients who use its mobile banking services, which increased by 32% in the first quarter of 2018.
- Citi Handlowy was rewarded, again, by **Euromoney**, a prestigious British financial magazine. In the 15th edition of the annual survey of the private banking market, the Bank was appreciated in two categories: for the best private banking proposal and for the best proposal for global clients.
- Private banking from Citi Handlowy enjoyed great success also in the prestigious domestic ranking of **Forbes magazine "Perfect banks for the most wealthy"**, in which Citi Handlowy's proposal was granted the highest mark: 5 stars. The Bank was rewarded for its global business model, under which it offers its services to clients that run their businesses throughout the world. The most valued features included the mobility of its proposal and an original offer for business in the fast growing e-commerce segment.
- The innovative acquisition strategy for the Citi Handlowy Credit Card, developed in cooperation with top actors in the e-commerce market, was granted the main prize in the **Innovation Award** contest, organized by the SAR Marketing Communication Association, in the "Business Model" category. This award confirms the effectiveness of the Bank's strategy implemented in 2017, the main pillars of which include meeting the needs of clients and progressing towards process automation. Cooperation with the largest e-commerce portals brought an increase in the sales of the Credit Card in digital channels by 26% year over year.
- For the third time in a row, the jury of **"Golden Banker"** ranking recognized Citi Simplicity Credit Card as the best card on the market. In the 9th edition of the competition, the Cash Loan at Citi Handlowy also ranked among 3 top products. The credit card has been a flagship product of Citi Handlowy for 20 years. It is appreciated by clients for clear and transparent rules and outstanding functionality recognized and accepted throughout the world.
- The President of Citi Handlowy's Management Board was honored in the first Polish edition of the competition **Male Champion of Change.** This title is granted to individuals with outstanding achievements in building diversity and supporting women. The Male Champion of Change statuettes were granted during the 9th edition of the Businesswoman of the Year gala, organized by the Success Written with a Lipstick (Sukces Pisany Szminką) Foundation.
- In the 9th edition of the **"White Ribbon Awards"**, organized under the motto "Don't be indifferent – stop violence against

women", Citi Handlowy was awarded in the "Employer – Sponsor" category. The Bank was granted the award for "support to convert the SOWA Centre, wise employee volunteering initiatives and long-term continuous assistance to the Women's Rights Centre Foundation.

- This year's **16th edition of the report prepared by the Responsible Business Forum features 15 CSR initiatives of Citi in Poland.** The „Responsible Business in Poland. Good Practices" publication is the only elaboration of this kind which sums up the most important CSR initiatives in Poland. As regards longstanding practices, such initiatives were considered, as: Citi Employee Volunteering Program, the survey „Poles' Attitudes Towards Saving" and Aleksander Gieysztor Award.
- In the **Responsible Company Ranking 2018** organized by Gazeta Prawna, Citi Handlowy was ranked at the crystal level which involves CSR mature and active companies

II. Poland's economy in 2018

1. Main macroeconomic trends

External environment

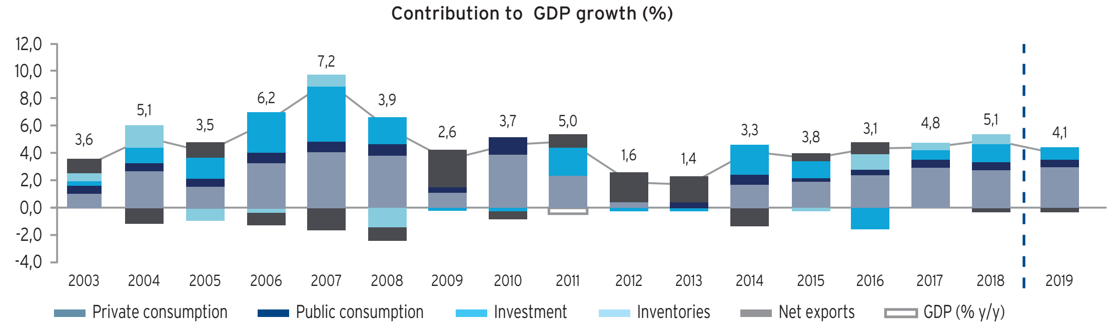
The year 2018 saw a slight slowdown in the global economy, which, however, still stayed near to the highest levels since 2010–2011. The optimism aroused in 2017 was reflected in gradually improving growth forecasts for the previous year during the first half of 2018, but in the second half of the year macroeconomic data started to be disappointing, leading to lower forecasts. A decline in sentiment was caused by the increasing trade conflict between the United States and China, weaker manufacturing performance in Germany and the upcoming shutdown of the fiscal stimulus package in the U.S.A. In consequence, global growth probably slowed down from 3.3% to 3.2% YoY, due to a GDP increase in the United States from 2.3% to 2.9% and a slowdown in the Eurozone from 2.5% to 1.8% and in China from 6.9% to 6.6%. The good performance of the U.S. economy was accompanied by a tightening of monetary policy by the Fed. Simultaneously, the European Central Bank ended its asset purchase program at the end of last year. In turn, the fiscal policy of the new Italian government led to tensions in its relationships with the European Union and an increase in the yields of Italian bonds. Interest rate hikes also translated into higher yields of U.S. bonds. In 2019, we expect that the global GDP rate will decline to 2,9%, with a slowdown in the U.S. to 2,6% and in the Eurozone to 1.0%.

Gross Domestic Product

Poland's Gross Domestic Product rose about 5.1% in 2018, as compared to 4.8% in 2017. The GDP growth pace was a positive surprise in nearly every consecutive quarter for the second year in a row. The main growth driver was still domestic demand, which accelerated from 4.9% to 5.5%, as a result of continued recovery of investment from 3.9% to 7.3%. The capital expenditure recovery was coupled with higher inflows of EU funds, which is partially reflected in the higher growth of construction output: 21.2% YoY versus 10.9% in 2017. At the same time, retail sales slowed down from 5.5% to 4.5%, and private consumption slowed down from 4.9% to about 4.6%. Weaker data were also revealed by the manufacturing sector, where output growth slowed down from 6.2% to 6.0%, also as a result of a lower increase in exports. The worse performance of the manufacturing sector was also indicated by a deep decline in the PMI, which forecasts the future economic situation, below 50.0 for the first time since 2014. The lower growth of exports and manufacturing output was influenced by the slowing down global growth of trade. Simultaneously, the weakening of the dynamics of Polish export was partially offset by the relatively weak Polish zloty. Despite a slightly higher slowdown of imports, in 2018 the contribution of net exports was lower than in 2017 and remained negative.

Good consumption performance was supported by continued improvement in the labor market. In the companies sector, pay growth accelerated from 5.9% to 7.1% YoY thanks to increasing shortages of workforce and a high demand for labor. At the same time, over last year, the unemployment rate declined from 6.6% as at the end of 2017 to 5.8%, while the employment growth rate in the companies sector decreased from 4.5% to 3.5% YoY.

In 2019, we expect that a GDP growth rate will fall to about 4.1%, as a result of slowing down in investments with simultaneous dynamic growth in consumption.

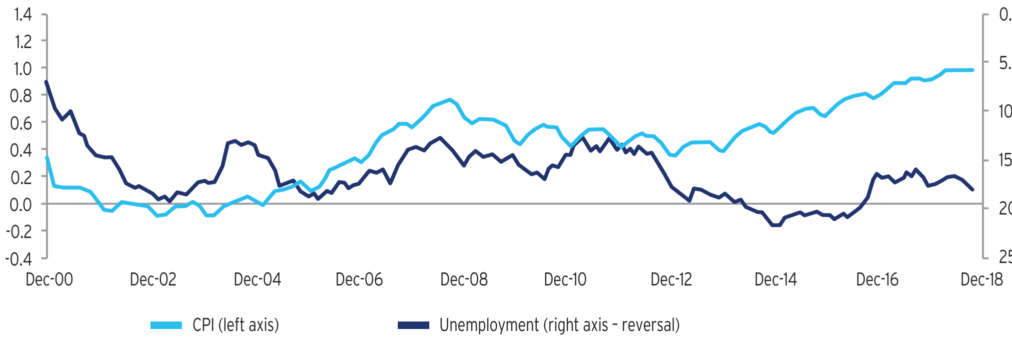


Source: Chief Statistical Office, City Handlowy forecast

Inflation

Prices of consumer goods and services rose, on average, by 1.6% in 2018, as compared to an increase by 2.0% in 2017, and at the end of the year inflation dropped to 1.1%, i.e. below the lower threshold of the inflation target range. This inflation decline was mainly a result of lower increases in food and product and services communication prices and in the end of the year also of declining oil and fuel prices. In addition, net inflation was stable at 0.7%. Despite strong economic growth, the Monetary Policy Council decided to keep the reference rate at its historical low level of 1.50%, because of low inflation. Additionally, representatives of the Monetary Policy Council signaled in their most recent statements that the rates could be left unchanged also in 2019 and 2020.

CPI vs unemployment



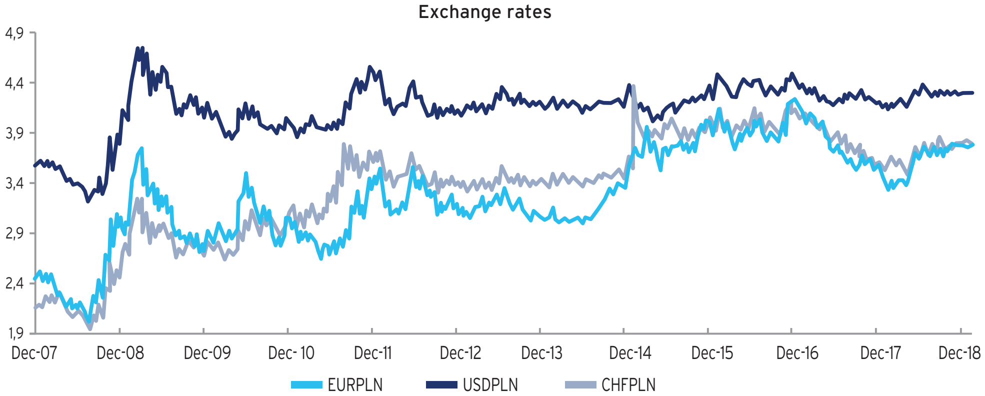
Source: NBP, GUS, Citi Handlowy

2. Money and forex markets

In 2018, the Polish zloty declined by about 2.7% versus the euro and by about 7.4% to the U.S. dollar. Last year, the zloty was strongly correlated with the U.S. dollar rates in global markets and clearly depreciated in the first six month of the year to about 4.40 to the euro following the declining of the EURUSD rate towards 1.13. In the second half of the year the EURPLN rate was stable near 4.30. At the same time, the volatility of the zloty lowered to all time lows. The key drivers that contributed to the appreciation of the U.S. dollar during the year included the tightening of monetary policy by the Fed and the increasing interest rate disparity between the United States and the Eurozone, as well as the growing yields of U.S. bonds. As a result, over the year, the EUR/PLN rate increased from 4.18 to 4.29, the USD/PLN rate rose from 3.48 to 3.74 and the CHF/PLN rate increased from 3.57 to 3.81.

The money market rates remained relatively stable during 2018. The WIBOR 3M rate was 1.72% at year end, i.e. unchanged as compared to 2017. The bond yield shrunk by about 35-45 basis points over the year. The vast majority of that decline occurred in the first quarter and in the end of the year. Simultaneously, credit spreads were mostly on the decline during the year, however as at the end of the year they bounced back to the levels observed in the end of 2017. In consequence, as at the end of the year, the yield of 2-year bonds lowered to 1.35% from 1.71% as at the end of 2017 and the yield of 10-year bonds dropped from 3.3% to 2.84%.

Exchange rates



Source: Reuters, Citi Handlowy

3. Capital market

Despite a very good beginning of the year (as both S&P500 and WIG index reached their all time highs in January), next months were a time of a visible deterioration in Poland's equity market. The WSE-listed companies weren't supported by the global environment and increasing risk aversion was caused, inter alia, by the escalating trade war between the United States and China, the harbingers of an economic slowdown both in China and Europe and the protracting negotiations of the Italian government and the European Commission over the budget for 2019. Additional factors that adversely contributed to the WSE situation were the Getback crisis and problems faced by some investment fund companies (which resulted in mass capital outflows from investment funds, mainly from the absolute return segment), as well as declining earnings of companies, which were under visible cost pressure (due to, for example, rising labor costs and raw material prices).

In consequence, all main indexes plummeted in 2018. The broadest market index (WIG) declined by 9.5%. In turn, WIG20 (largest caps) went down by 7.5% (5.7% dividend-related adjustment). Those outflows from investment funds largely translated into a visible fall in mid-cap prices (mWIG40 declined by 19.3%) and small-cap prices (SWIG80 closed the year 27.6% below the level as at the end of 2017). Of all the sectors, only the fuel companies managed to repulse the downward trend (WIG-Fuel sub-index increased by 12% YoY). The deepest drop was in the chemical and construction sectors with their indexes going down 38.9% and 32.1%, respectively.

2018 turned out to be the second consecutive year with a decline in the number of companies listed on the main market of the Warsaw Stock Exchange. Over the last 12 months, only 7 companies joined the WSE (the lowest number of new entrants since 2003), including 2 transferred from the New Connect market. In the same period, shares of 25 companies were delisted (all time high).
In consequence, as at 31 December 2018 the total number of companies listed on the WSE fell to 465. The total value of public offerings was slightly above PLN 301 million and was significantly below the level reached in 2017 (PLN 7.5 billion). The aggregate capitalization of all the companies listed on the WSE main market amounted to PLN 1,165 billion (including PLN 616 billion for the Polish companies) and was lower by 15.6% as compared to the same period in 2017

Stock market indices, as at 31 December 2018

Index	2018	Change (%)	2017	Change (%)	2016
WIG	57,690.50	(9.5%)	63,745.30	23.2%	51,754.03
WIG-PL	58,889.85	(9.8%)	65,263.00	24.1%	52,583.91
WIG-div	1,069.63	(11.9%)	1,213.88	16.8%	1,039.29
WIG20	2,276.63	(7.5%)	2,461.21	26.4%	1,947.92
WIG20TR	4,018.80	(5.7%)	4,261.88	29.3%	3,296.32
WIG30	2,581.52	(8.6%)	2,825.27	25.9%	2,243.30
mWIG40	3,909.37	(19.3%)	4,847.27	15.0%	4,215.54
sWIG80	10,571.10	(27.6%)	14,595.76	2.4%	14,259.47
Sector sub-indices					
WIG-Banks	7,453.65	(12.1%)	8,481.97	35.4%	6,263.33
WIG-Construction	1,915.00	(32.1%)	2,819.16	(1.3%)	2,857.41
WIG-Chemicals	9,350.86	(38.9%)	15,297.93	11.2%	13,755.90
WIG-Energy	2,410.68	(19.4%)	2,990.57	63.5%	1,829.06
WIG-Mining	3,423.39	(22.1%)	4,394.93	72.3%	2,551.21
WIG-IT	1,991.93	(2.4%)	2,041.80	(5.3%)	2,155.40
WIG-Media	4,513.06	(5.8%)	4,791.34	5.0%	4,561.93
WIG-Developers	1,911.66	(13%)	2,198.05	(61.2%)	5,668.84
WIG-Oil & Gas	7,998.16	12%	7,140.43	71.9%	4,154.32
WIG-Food	3,383.22	(6.7%)	3,627.59	3.2%	3,516.44
WIG-Telecom	619.93	(16.8%)	745.44	2.1%	730.02

Source: WSE, Dom Maklerski Banku Handlowego S.A.

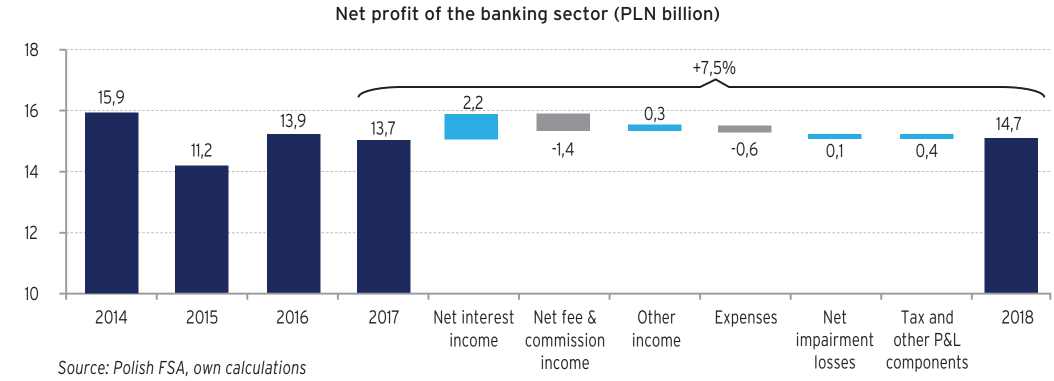
Value of trading in shares and bonds, volume of trading in derivatives on WSE, as at 31 December 2018

	2018	Change (%)	2017	Change (%)	2016
Shares (PLN million)*	423,700	(18.8%)	521,957	29.0%	404,585
Bonds (PLN million)	2,662	(8.0%)	2,893	1.5%	2,851
Futures ('000 contracts)	15,741	7.5%	14,637	(3.7%)	15,196
Options ('000 contracts)	586	(3.8%)	609	(19.2%)	754

Source: WSE, Dom Maklerski Banku Handlowego S.A.

** Data without fluctuations.*

4. Banking sector

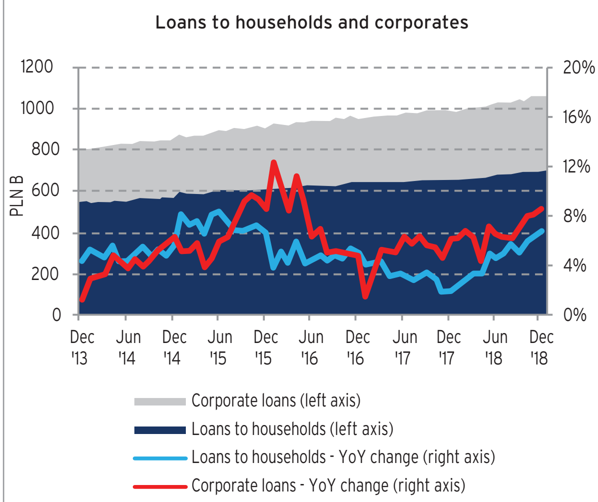


Source: Polish FSA, own calculations

Financial results

According to data revealed by the Polish Financial Supervision Authority, the net profit of the banking sector considerably improved in 2018 as compared to prior year, i.e. by 7.5% (PLN 1.0 billion) to PLN 14.7 billion. The key contributor leading to the higher result of the banking sector was a significant increase in net interest income (+5.2% YoY, PLN 2.2 billion), supported by higher other revenues (+4.6% YoY, PLN 348 million). On the other hand, net fee and commission income detracted total revenues as it declined by 10.5% YoY. (PLN 1.4 billion). In consequence, the total revenues of the banking sector exceeded PLN 65 billion in 2018, i.e. they were 1.8% higher than in the prior year and amounted to PLN 1.1 billion. The other profit & loss lines which were detractors at the level of the entire banking sector included, first of all, higher operating expenses (+1.7% YoY, PLN 550 million), while depreciation and amortization were stable and the bank levy slightly increased (+3.8% YoY, as estimated by the Ministry of Finance with respect to actual performance of the budget for 2018). Earnings of banks were also adversely affected by a significant decline in write-offs and provisions, by 0.7% YoY (PLN 65 million). In 2018, the income tax paid by the banking sector was PLN 4.8 billion, which means only a small increase as compared to prior year (+0,2% YoY, PLN 11 million), however at the same time the sector recorded a considerable increase in revenues from its participation in profits and losses of subsidiaries and also in other profit & loss lines, which improved its pre-tax profit by more than PLN 0.4 billion. The cost effectiveness ratio (C/I) of the banking sector was flat from the previous year and amounted to 56%.

The new financial accounting standards that became effective on 1 January 2018 (IFRS 9) significantly limit the comparability of data related to credit portfolio quality. In the first quarter of 2018, the NPL ratio was clearly on the rise for the majority of banks as a result of adaptation of data to new requirements. However, the portfolio quality data as at 31 December 2018 show that the banking sector managed to return gradually to the previous levels of the non-performing loan ratio (NPL for the credit portfolio for non-financial entities was 6.4%, i.e. It increased by 0.1 p.p. YoY) . The new standards had the most significant impact on the NPL ratio for corporate clients (+0.4 p.p. YoY to 8.7%), especially in the segment of small and medium sized enterprises (where NPL increased by 1.3 p.p. YoY to 11.4%). The credit portfolio improved in the category of loans for households, where the NPL ratio declined by 0.2 p.p. YoY to 5.9% and a similar positive tendency was observed both for mortgage and consumer loans.

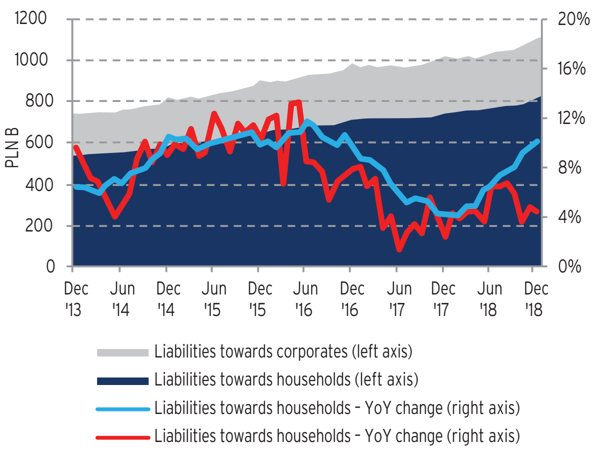


Source: NBP, own calculations

In 2018, the growth rate loans to the non-financial sector increased substantially from 3.2% YoY (PLN 35 billion) as at 31 December 2017 to 7.1% YoY (PLN 79 billion). That increase was mainly driven by the higher growth of loans to companies (+8.6% YoY, PLN 27.8 billion, as at the end of 2018 versus +6.1% YoY, PLN 18.5 billion, as at the end of 2017). Unlike in 2017, the key driver of growth was current loans (+15.8% YoY, PLN 22.5 billion), while the volume of real property loans was growing at a slightly slower pace (+14.4% YoY, PLN 8.0 billion). On the other hand, the capital expenditure loan portfolio shrunk by 2.1% YoY or PLN 2.6 billion. In terms of time to maturity, the highest growth was recorded for long-term loans (over 5 years) (+9.8% YoY, PLN 15.4 billion), followed by 1-5 year loans (+6.0% YoY, PLN 5.4 billion), while loans up to 1 year and other current receivables increased by 5.3% YoY, i.e. PLN 4.5 billion, as at the end of 2018. The total receivables of the banking sector from companies amounted to PLN 352 billion.

In the retail client segment, a crucial factor was in an increase in the growth rate for mortgage loans to households, from -0.1% YoY (PLN 421 million) as at 31 December 2017 to 6.8% YoY (PLN 27.6 billion) as at 31 December 2018, while the growth rate for the PLN mortgage loans changed only slightly to +11.3% YoY (PLN 30.7 billion), and the change was mainly a result of Swiss franc appreciation to the zloty, which led to reduction in the decline rate for the volume of foreign-currency mortgage loans to -2.3% YoY (PLN 3.1 billion). The total household mortgage loan portfolio reached PLN 432 billion at the end of 2018. The banking sector saw the accelerated growth of volume of loan receivables from households also in the segment of consumer loans, where the growth rate reached 9.3% YoY (PLN 15.6 billion). The portfolio of current loans for individual entrepreneurs and farmers also increased by 6.9% YoY (PLN 3.2 billion) and the portfolio of investment loans for households declined by 2.4% YoY (PLN 763 million). From the time to maturity perspective, long term loans (over 5 years) gained importance with their growth rate increasing to 7.7% YoY, while loans for 1- 5 years were growing at a little slower pace (by 6.8% YoY). Short term loans (up to 1 year) were flat YoY.

Households and corporates deposits



Source: NBP, own calculations

In 2018, deposits of companies increased by 4.3% YoY, (PLN 11.9 billion) to PLN 288 billion. Time deposits continued to decline, although at a slower pace, by 0.8% YoY, or PLN 697 million, while the volume of current deposits rose by 6.7% YoY, or PLN 12.6 billion. In turn, the growth rate for household deposits significantly increased, to 10.1% YoY, PLN 74.9 billion, and, in consequence, their total volume reached PLN 819 billion as at 31 December 2018. The growth leader was current deposits at banks (+15.5% YoY, PLN 69.9 billion), but the trend was also positive for time deposits, which rose by 1.7% YoY, i.e. PLN 5.0 billion.

The macroeconomic forecasts for 2019 indicate a partial change of market conditions. After the very strong growth of GDP in 2018, a gradual slowdown is expected. It should be assumed that this may lead to the slower growth of lending, both in the segment of individual clients (consumer loans) and companies. It seems likely that the demand for housing loans, reduced by more and more stringent requirements of banks, will be maintained at a quite high level. The still healthy financial condition of companies and households should protect the good quality of the credit portfolio.

5. Possible threats in global and Poland's economy in 2019

Intensifying protectionist tendencies, and especially rising tensions between the United States and China or European Union, may push down both international trade volumes and global growth. A slowdown in China' economy would hit German exports in the first place and the resulting slowdown in Germany could adversely affect economic activity in Poland.

The UK economy may suffer serious consequences as a result of potential hard Brexit (i.e. the UK leaving the EU without an agreement). It is unlikely that Poland's economy would survive this course of action intact as the United Kingdom is the third largest market for Polish exports and a source of transfers in the current account. In addition, hard Brexit will probably contribute to a considerable increase in risk aversion leading to depreciation of both Polish currency and treasury bonds.

The pace adopted by main central banks throughout the world to tighten their monetary policies, including intervals between consecutive rate hikes, may also have a significant impact on capital flows incoming to emerging markets. If the interest rates in the United States and the Eurozone were raised above the expected levels, the risk of outflow of foreign investors from the domestic market would be higher, especially if Polish interest rates are kept unchanged. This could lead to depreciation of the Polish zloty and an increase in yields of long-term treasury bonds.

The recurrence of geopolitical tensions could result in higher volatility in financial markets. If tensions between the U.S. and China, Iran or North Korea or conflicts in Syria or Ukraine step up, the risk premium included in prices of emerging market assets, including the Polish zloty, can go up. In addition, uncertainty could contribute to reduction in inflows of foreign direct investments to Poland, suppressing the growth of capital expenditures.

In the process of preparation for the new financial framework for the European Union, against the background of Brexit and changing priorities of the Union, can lead to significant reduction in the EU funds allocated to Poland for 2021–2027.

If a high growth of pay and low unemployment continue, with a simultaneous surge of oil prices, the unit labor cost is likely to increase, followed by a decline in the profitability of companies. In addition, Polish companies are likely to postpone new investment projects due to the uncertainty connected with changes in the domestic legal environment. In the long run, this creates a risk translating into a decline in the growth potential of the companies sector.

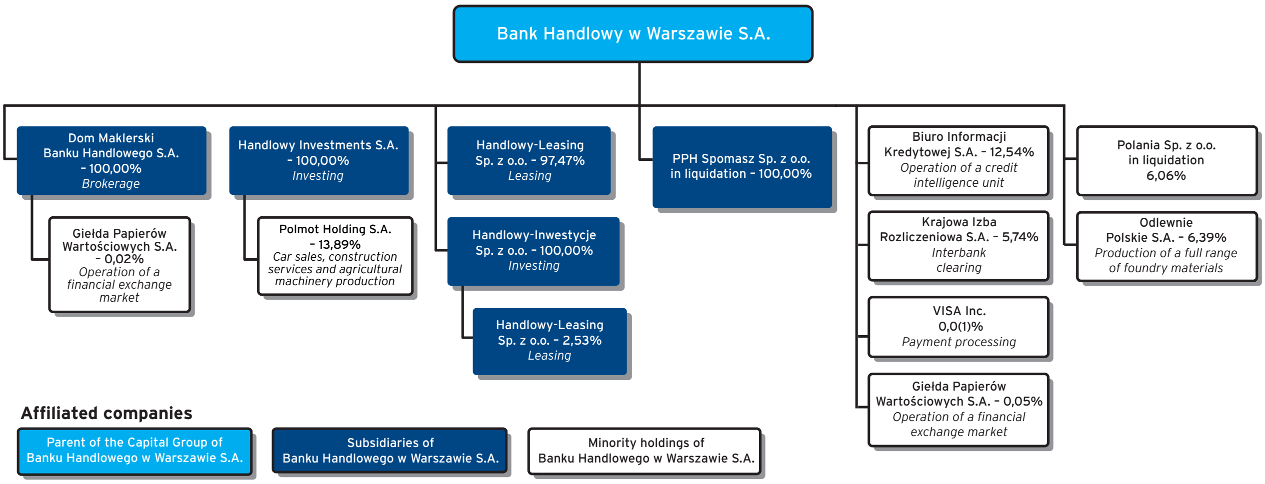
The above factors may affect the financial performance of the Group in the future.

Poland economic indicators (%)	2012	2013	2014	2015	2016	2017	2018F	2019F
GDP growth, yoy	1.6	1.4	3.3	3.8	3.1	4.8	5.1	4.1
Domestic demand growth, yoy	-0.5	-0.7	4.7	3.3	2.3	4.9	5.5	4.5
Private consumption growth, yoy	0.8	0.3	2.6	3.0	3.9	4.9	4.6	5.4
Investment growth, yoy	-1.8	-1.1	10.0	6.1	-8.2	3.9	7.3	4.7
CPI (eop)	2.4	0.7	-1.0	-0.5	0.8	2.1	1.1	2.0
Policy interest rate (eop)	4.25	2.50	2.00	1.50	1.50	1.50	1.50	1.50

Source: Citi Handlowy's estimates as of January 1, 2019

III. Organisational chart of the Capital Group of Bank Handlowy w Warszawie S.A.

The organisational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as at 31 December 2018; the Bank's share interest in each specified.



IV. The organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The Capital Group of Bank Handlowy w Warszawie S.A. (the "Group") consists of a parent company and subsidiaries.

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Bank Handlowy w Warszawie S.A.*	Banking	parent	-	-	7,007,052
Dom Maklerski Banku Handlowego S.A. (DMBH)***	Brokerage	subsidiary	100%	full consolidation	98,777
Handlowy-Leasing Sp. z o.o.***	Leasing	subsidiary	100%**	full consolidation	21,906
Handlowy Investments S.A.***	Investing activity	subsidiary	100%	full consolidation	18,137
PPH Spomasz Sp. z o.o. w likwidacji***	Ceased operations	subsidiary	100%	full consolidation	in liquidation

* *Equity of Bank Handlowy w Warszawie S.A. as per the statement of the financial position of the Bank for 2018.*

** *Including indirect participations.*

*** *Pre-audit data.*

GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Handlowy-Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100%	equity valuation	10,813

*** *Pre-audit data.*

V. Selected financial data of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Summary financial data of the Bank and the Group

This document presents financial data for both Bank and Group. As activities of the Bank account for the vast majority of operations of the Group (the assets, equity and revenues of the Bank account for 99.9%, 99.3% and 99.5% of the assets, equity and consolidated revenues of the Group, respectively), both results and financial situation are discussed on the basis of consolidated data, except where it is expressly indicated that the data of the Bank are discussed.

PLN million	Bank		Capital Group	
	2018	2017	2018	2017
Total assets	49,242.0	42,864.0	49,304.7	43,037.6
Equity	7,007.1	6,874.6	7,056.8	6,938.9
Amounts due from customers*	21,853.3	19,766.8	21,949.0	19,849.0
Deposits *	38,159.0	31,980.9	38,097.4	31,945.2,
Net profit	653.1	537.1	638.9	535.6
Capital adequacy ratio	16.5%	17.6%	16.8%	17.9%

* *Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.*

2. Financial results of the Bank and the Group in 2018

2.1 Income statement

In 2018, the Group generated a net profit of PLN 638.9 million, which was higher by PLN 103.3 million (i.e. 19.3%) as compared to profit for 2017. The consolidated gross profit for 2018 amounted to PLN 828.7 million and increased by PLN 121.6 million (i.e. 17.2%) as compared to the prior year.

Selected income statement items

PLN '000	Bank		Capital Group			
	2018	2017*	2018	2017*	Change	
					PLN '000	%
Net interest income	1,105,079	1,078,921	1,107,574	1,082,147	25,427	2.3%
Net fee and commission income	527,291	541,523	549,948	580,661	(30,713)	(5.3%)
Dividend income	23,778	32,939	9,533	9,428	105	1.1%
Net income on trading financial instruments and revaluation	361,546	343,910	364,204	346,275	17,929	5.2%
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income[a]	112,631	35,772	112,631	35,772	76,859	214.9%
Net gain/(loss) on equity and other instruments measured at fair value through income statement[b]	6,276	3,377	6,522	3,377	3,145	93.1%
Net gain on hedge accounting	3,682	10,261	3,682	10,261	(6,579)	(64.1%)
Net other operating income	8,801	(2,747)	5,901	556	5,345	961.3%
Total income	**2,149,084**	**2,043,956**	**2,159,995**	**2,068,477**	**91,518**	**4.4%**
Overheads and general administrative expenses and depreciation, including	(1,155,065)	(1,166,928)	(1,179,631)	(1,191,745)	12,114	(1.0%)
Overheads and general administrative expenses	(1,084,387)	(1,094,472)	(1,108,247)	(1,118,653)	10,406	(0.9%)
Depreciation/amortization of tangible and intangible fixed assets	(70,678)	(72,456)	(71,384)	(73,092)	1,708	(2.3%)
Profit/loss on sale of other assets	(834)	437	(813)	10,929	(11,742)	(107.4%)
Net impairment on financial assets and provisions for off-balance sheet commitments[c]	(63,562)	(99,491)	(63,511)	(103,189)	39,678	(38.5%)
Share in net profits of entities valued at equity method	-	-	(22)	242	(264)	(109.1%)
Tax on some financial institutions	(87,350)	(77,634)	(87,350)	(77,634)	(9,716)	12.5%
Profit before tax	**842,273**	**700,340**	**828,668**	**707,080**	**121,588**	**17.2%**
Income tax expense	(189,154)	(163,238)	(189,816)	(171,514)	(18,302)	10.7%
Net profit	**653,119**	**537,102**	**638,852**	**535,566**	**103,286**	**19.3%**

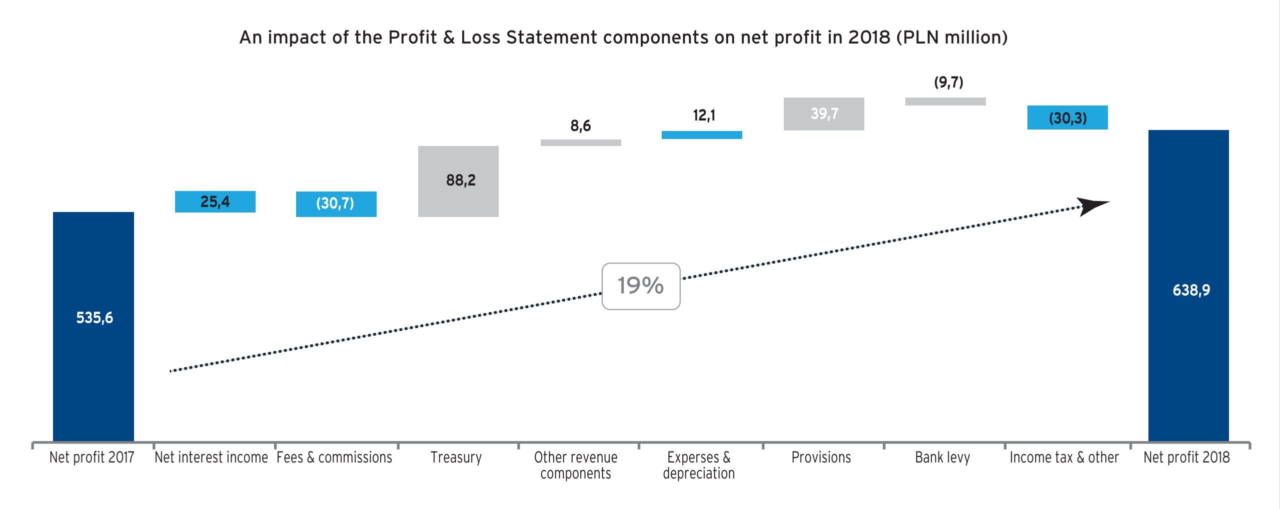
* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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

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

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

The impact of individual items of the income statement on net profit is shown on the graph below:

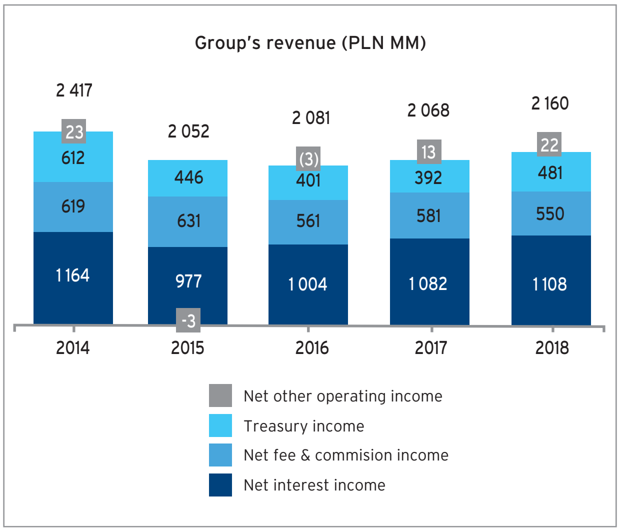


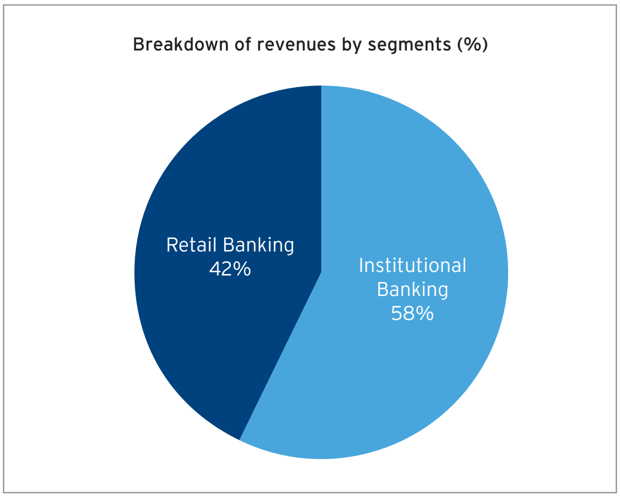
The following factors contributed to a change in net profit for 2018 as compared with 2017:

- Operating revenues (which include net interest income and net fee and commission income, revenues from dividends, result on financial instruments held for trading and revaluation, result on investment debt securities, result on investment equity instruments, hedge accounting results and result on other operating revenues and expenses) amounted to PLN 2,160.0 million as compared to PLN 2,068.5 million in 2017 – an increase by PLN 91.5 million (i.e. 4.4%). This growth was mainly generated by the result on treasury operations (which includes result on financial instruments held for trading and revaluation, result on investment debt financial assets recognized at fair value through other comprehensive income and hedge accounting result), which was higher by PLN 88.2 million (i.e. 22.5%).
- In 2018, the Group continued its cost discipline policy which led to a decrease in operating and overhead costs as well as depreciation by PLN 12.1 million (i.e. 1.0%).
- In 2018, net impairment charges with respect to financial assets and provisions for granted financial and guarantee commitments were PLN 63.5 million as compared to PLN 103.2 million in 2017, i.e. declined by PLN 39.7 million – this was an effect of lower charges in the Institutional Clients Group.

2.1.1 Revenue

In 2018, revenues from operating activities amounted to PLN 2,160.0 million as compared to PLN 2,068.5 million in 2017, i.e. increased by PLN 91.5 million, i.e. 4.4%.



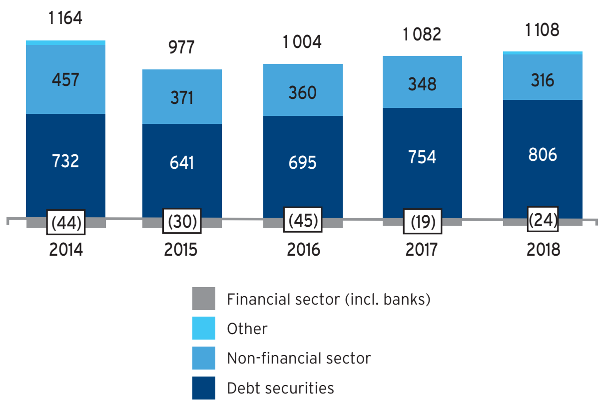


The operating result generated by the Group in 2018 was shaped in particular by:

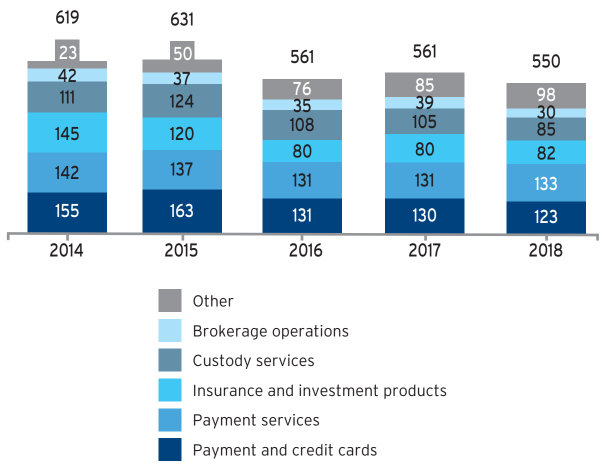
- Net interest income was the most important source of revenues for the Group in 2018 (51.3% of total revenues). It amounted to PLN 1,107.6 million as compared to PLN 1,082.1 million in 2017, i.e. increased by PLN 25.4 million (i.e. 2.3%).

  Interest income in 2018 amounted to PLN 1,304.5 million and fell by PLN 46.9 million (i.e. 3.5%) as compared to the prior year. This difference was mainly caused by the lack of adequate relations in hedge accounting and, in consequence, the presentation of interest income on hedging derivative instruments in that line (a decline by PLN 41.1 million, i.e. 100% in 2018). Simultaneously, interest on customer debt (in both financial and non-financial sector), which is the main source of interest income, reached the level of PLN 949.5 million and was higher by PLN 33.7 million (i.e. 3.7%) as compared to 2017. This was mainly connected with an increase in the average volume of unsecured receivables from individual clients and the volume of loans to institutional clients.

  In 2018, interest expenses declined by PLN 72.3 million (i.e. 26.9%) as compared to 2017. The highest change occurred for interest expenses for derivative instruments in hedge accounting (a decrease by PLN 61.1 million, i.e. 94.3% in 2018). In turn, interest on liabilities to clients (from both financial and non-financial sector), which is the main source of interest expenses, declined by PLN 17.0 million (i.e. 10.3%) as compared to 2017 due to a lower margin on deposits of institutional clients.



- Net fee and commission income, amounting to PLN 549.9 million versus PLN 580.7 million in 2017 (a decrease by PLN 30.7 million (i.e. 5.3%), was mainly affected by deterioration in the situation in the domestic equity market and higher risk aversion amongst individual clients, which adversely affected the result on agency sales of insurance and investment products, brokerage services and custody operations. On the other hand, net fee and commission income from regular activities increased by PLN 8.0 million (i.e. 2.3%) as compared to 2017.



- Other operating revenues (i.e. incomes other than interest income and fee and commission income) amounted to PLN 502.5 million as compared to PLN 405.7 million in 2017. The increase in other operating revenues, by PLN 96.8 million (i.e. 23.9%) was mainly caused by an increase in the result on investment debt financial assets recognized at fair value through other comprehensive income by PLN 76.9 million in consequence of favorable conditions in Poland's debt market in 2018. Simultaneously, the result on financial securities held for trading and revaluation increased by PLN 17.9 million due to a higher result on client operations – FX transactions.

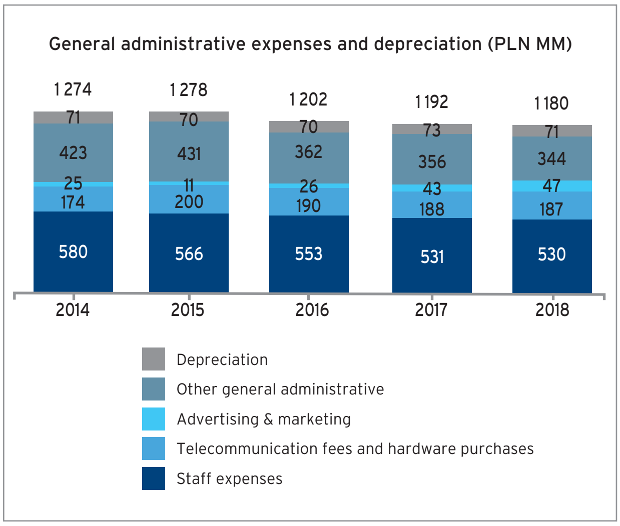
2.1.2 Expenses

General expenses & depreciation

PLN '000	Bank		Capital Group			
	2018	2017	2018	2017	Change	
					PLN '000	%
Personnel costs	**514,222**	**516,363**	**529,500**	**531,316**	**(1,816)**	**(0.3%)**
General administrative expenses, including:	**570,165**	**578,109**	**578,747**	**587,337**	**(8,590)**	**(1.5%)**
Telecommunication fees and IT hardware	182,095	182,848	187,339	188,484	(1,145)	(0.6%)
Building maintenance and rent	64,043	69,248	64,208	69,409	(5,201)	(7.5%)
Costs of external services, including advisory, audit, consulting services	54,592	52,745	55,169	53,447	1,722	3.2%
Total overheads	**1,084,387**	**1,094,472**	**1,108,247**	**1,118,653**	**(10,406)**	**(0.9%)**
Depreciation	70,678	72,456	71,384	73,092	(1,708)	(2.3%)
Total general expenses & depreciation	**1,155,065**	**1,166,928**	**1,179,631**	**1,191,745**	**(12,114)**	**(1.0%)**

Operating expense and general and administrative expenses, including depreciation and amortization, amounted to PLN 1,179.6 million as compared to PLN 1,191.7 million in the prior year period. The decline in expenses by PLN 12.1 million (i.e. 1.0%) was mainly caused by lower general and administrative expenses (a decrease by PLN 8.6 million, i.e. 1.5%), due to a lower contribution to the compulsory restructuring fund of the Bank Guarantee Fund and lower costs of lease. On the other hand, costs connected with sales of banking products and costs of advertising and marketing increased in connection with promotional actions carried out to build the awareness of the Citi Handlowy brand.

The average headcount in the Group declined by 148 FTEs in the reporting period. As at 31 December 2018, the Group employed 3,276 employees.



2.1.3 Net impairment losses on financial assets and provisions for financial and guarantee commitments

Net impairment and provisions

PLN '000	Bank		Capital Group			
	2018	2017	2018	2017	Change	
					PLN '000	%
Net impairment allowances for receivables, including	(74,035)	(97,788)	(74,035)	(97,614)	23,579	(24.2%)
Net impairment allowances for financial assets - Stage 1	(2,006)	n/a	(2,006)	n/a	n/a	n/a
Net impairment allowances for financial assets - Stage 2	1,569	n/a	1,569	n/a	n/a	n/a
Net impairment allowances for financial assets - Stage 3	(73,598)	n/a	(73,598)	n/a	n/a	n/a
Net provisions for granted financial and guarantee commitments	9,455	(5,575)	9,455	(5,575)	15,030	(269.6%)
Net impairment allowances for equity investments	(51)	3,872	-	-	-	-
Net impairment allowances for debt investment financial assets measured at fair value through other comprehensive income	1,069	-	1,069	-	1,069	-
Net impairment on financial assets	**(63,562)**	**(99,491)**	**(63,511)**	**(103,189)**	**39,678**	**(38.5%)**

Establishment of net impairment charges amounting to PLN 63.5 million, as compared to establishment of net charges of PLN 103.2 million in 2017, which means an improvement by PLN 39.7 million, was related to the Institutional Clients Group (reversal of net charges amounting to PLN 8.6 million in 2018 as compared to establishment of net charges of PLN 51.4 million in 2017). This was an effect of lower charges for identified impaired loans and the repayment of a few credit commitments. The Consumer Banking Sector recorded a higher negative result in the category net impairment charges, i.e. PLN 72.1 million as compared to PLN 51.8 million in 2017, in connection with implementation of IFRS 9 and clients for which an impairment was recognized in 2018.

2.1.4 Ratio analysis

The Group's efficiency ratios

	2018	2017
Return on equity (ROE)*	10,0%	8,5%
Return on assets (ROA)**	1,4%	1,2%
Net interest margin (NIM)***	2,5%	2,5%
Margin on interest-bearing assets	2,6%	2,7%
Earnings per share in PLN	4,89	4,10
Cost/income****	55%	58%
Non-financial sector loans to non-financial sector deposits	64%	66%
Non-financial sector loans to total assets	40%	41%
Net interest income to total revenue	51%	52%
Net fee and commission income to total revenue	25%	28%

Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis.

** *Net profit to average total assets calculated on a quarterly basis.*

*** *Net interest income to average total assets calculated on a quarterly basis.*

**** *Overheads, general administrative expenses, depreciation and amortization to operating income.*

The Bank's efficiency ratios

	2018	2017
Return on equity (ROE)*	10.3%	8.6%
Return on assets (ROA)**	1.4%	1.2%
Net interest margin (NIM)***	2.4%	2.5%
Earnings per ordinary share in PLN	5.00	4.11
Cost/Income****	54%	57%

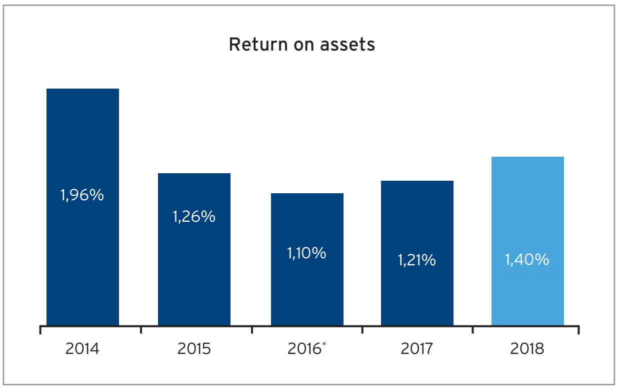
Net profit to average equity (including net profit for the current year) calculated on a quarterly basis.

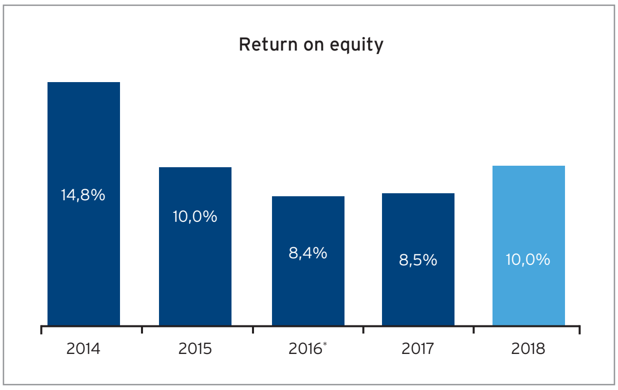
** *Net profit to average total assets calculated on a quarterly basis.*

*** *Net interest income to average total assets calculated on a quarterly basis.*

**** *Overheads, general administrative expenses, depreciation and amortization to operating income.*

In 2018, the Group's returns on equity and assets remained at levels of respectively 10.0% and 1.40%.





* *Net profit from 2016 was adjusted by VISA transaction in the amount of PLN 75 MM.*

In the area of cost effectiveness, the cost-to-income ratio declined by 3 p.p. to 55% as at the end of 2018. This improvement in effectiveness was a result of both higher revenues (mainly thanks to a higher result on treasury operations) and lower costs (thanks to savings in the area of real property lease and maintenance).

In 2018, the interest rate margin slightly deteriorated. It decreased to 2.5% on total assets and 2.6% on interest-bearing assets, primarily in connection with a decline of the credit margin.

2.2. Consolidated statement of financial position

As at 31 December 2018, the Group's balance sheet total amounted to PLN 49,304.7 million and was 14.6% higher than at the end of 2017.

Consolidated statement of financial position

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2018	31.12.2017*	31.12.2018	31.12.2017*	PLN '000	%
ASSETS						
Cash and balances with central bank	7,272,193	462,126	7,272,193	462,126	6,810,067	-
Receivables from banks	1,333,816	836,166	1,333,977	836,774	497,203	59.4%
Financial assets held for trading	2,213,849	2,162,040	2,237,076	2,179,925	57,151	2.6%
Debt financial asstes measured at fair value through other comprehensive income[d]	14,241,363	17,439,439	14,241,363	17,439,439	(3,198,076)	(18.3%)
Equity investments valued at equity method			10,399	10,664	(265)	(2.5%)
Equity and other instruments measured at fair value through income statement[e]	154,586	132,539	48,768	26,500	22,268	84.0%
Receivables from customers	21,853,349	19,766,803	21,949,014	19,849,033	2,099,981	10.6%
Property and equipment	363,002	375,673	364,261	376,775	(12,514)	(3.3%)
Intangible assets	1,417,506	1,351,583	1,418,794	1,352,413	66,381	4.9%
Receivables due to current income tax	-	-	1,744	667	1,077	161.5%
Asset due to deferred income tax	205,165	176,979	204,207	175,904	28,303	16.1%
Other assets	187,195	158,688	222,918	325,448	(102,530)	(31.5%)
Non-current assets available-for-sale	-	1,928	-	1,928	(1,928)	(100.0%)
Total assets	**49,242,024**	**42,863,964**	**49,304,714**	**43,037,596**	**6,267,118**	**14.6%**
LIABILITIES						
Liabilities towards banks	1,402,124	1,568,261	1,402,233	1,568,376	(166,143)	(10.6%)
Financial liabilities held for trading	1,606,189	1,351,031	1,609,382	1,353,215	256,167	18.9%
Hedging derivatives	-	50,191	-	50,191	(50,191)	(100.0%)
Liabilities towards customers	38,395,885	32,172,441	38,334,345	32,136,698	6,197,647	19.3%
Provisions	29,984	17,871	29,984	18,300	11,684	63.8%
Current income tax liabilities	66,297	52,340	66,297	52,340	13,957	26.7%
Other liabilities	734,493	777,211	805,723	919,593	(113,870)	(12.4%)
Total liabilities	**42,234,972**	**35,989,346**	**42,247,964**	**36,098,713**	**6,149,251**	**17.0%**
EQUITY						
Issued capital	522,638	522,638	522,638	522,638	-	-
Supplementary capital	2,944,585	2,944,585	3,003,290	3,003,969	(679)	-
Revaluation reserve	84,372	(9,376)	84,372	(9,118)	93,490	-
Other reserves	2,877,122	2,879,669	2,883,838	2,895,598	(11,760)	(0.4%)
Retained earnings	578,335	537,102	562,612	525,796	36,816	7.0%
Total equity	**7,007,052**	**6,874,618**	**7,056,750**	**6,938,883**	**117,867**	**1.7%**
Total liabilities and equity	**49,242,024**	**42,863,964**	**49,304,714**	**43,037,596**	**6,267,118**	**14.6%**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

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

e) Corresponds to the 'Equity investments available for sale' in accordance with IAS 39.

2.1.5 Assets

Gross receivables from clients

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2018	31.12.2017*	31.12.2018	31.12.2017	PLN '000	%
Non-banking financial entities	2,052,764	1,931,845	2,148,206	2,012,490	135,716	6.7%
Non-financial sector entities	12,879,266	11,251,852	12,881,440	11,255,032	1,626,408	14.5%
Individuals	7,534,795	7,092,086	7,535,018	7,092,665	442,353	6.2%
Public entities	50,907	76,626	50,907	76,626	(25,719)	(33.6%)
Other non-financial sector entities	3	3	3	3	-	0.0%
Total gross receivables from clients	**22,517,735**	**20,352,412**	**22,615,574**	**20,436,816**	**2,178,758**	**10.7%**

Net receivables from clients

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	PLN '000	%
Receivables from financial sector entities	**2,051,373**	**1,914,372**	**2,146,815**	**1,995,017**	**151,798**	**7.6%**
Receivables from non-financial sector entities, including:	**19,801,976**	**17,852,431**	**19,802,199**	**17,854,016**	**1,948,183**	**10.9%**
Corporate clients*	12,644,282	11,055,884	12,644,282	11,056,890	1,587,392	14.4%
Individuals, including:	7,157,694	6,796,547	7,157,917	6,797,126	360,791	5.3%
Unhedged liabilities	5,507,928	5,322,620	5,508,151	5,323,199	184,952	3.5%
Mortgage loans	1,649,766	1,473,927	1,649,766	1,473,927	175,839	11.9%
Total net receivables from clients	**21,853,349**	**19,766,803**	**21,949,014**	**19,849,033**	**2,099,981**	**10.6%**

* *Corporate clients include enterprises, public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households.*

As at the end of 2018, the biggest share in the Group's structure of assets was represented by net customer debt. Its share in total assets amounted to 44.5% as at the end of December 2018. Net customer debt levelled, as at the end of 2018, levelled at PLN 21.9 billion and was significantly higher (by PLN 2.1 billion, i.e. 10.6%) as compared with 2017, which resulted mainly from increased lending activity to non-financial sector clients (+1.9 billion, i.e. 10.9%). In the non-financial sector, net customer debt increased for both institutional clients (PLN 1.6 billion, i.e. 14.4%, increase in all client segments) and retail clients (PLN 0.4 billion, i.e. 5.3%, due to a higher balance of unsecured loans and mortgage loans).

Debt securities portfolio of the Bank

PLN '000	As at		Change	
	31.12.2018	31.12.2017	PLN '000	%
Treasury bonds, including:	14,935,517	17,020,453	(2,084,936)	(12.2%)
covered bonds in fair value hedge accounting	-	2,492,215	(2,492,215)	(100.0%)
Bank bonds	1	32,577	(32,576)	(100.0%)
Bills issued by financial entities	237,017	130,604	106,414	81.5%
NBP bills	-	1,399,713	(1,399,713)	(100.0%)
Total	**15,172,535**	**18,583,347**	**(3,410,812)**	**(18.4%)**

The volume of the debt securities portfolio decreased by PLN 3.4 billion (i.e. 18.4%) as at the end of 2018. This was the result of a decreased position in Treasury bonds.

2.2.2 Liabilities

Liabilities towards customers

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	PLN '000	%
Deposits of financial sector entities	**7,213,788**	**4,977,728**	**7,040,000**	**4,853,148**	**2,186,852**	**45.1%**
Deposits of non-financial sector entities, including	**30,945,200**	**27,003,168**	**31,057,448**	**27,092,005**	**3,965,443**	**14.6%**
Non-financial sector entities	15,016,944	13,415,235	15,012,645	13,403,515	1,609,130	12.0%
Non-commercial institutions	395,005	416,064	395,005	416,064	(21,059)	(5.1%)
Individuals	11,786,786	10,248,163	11,903,332	10,348,720	1,554,612	15.0%
Public sector entities	3,746,465	2,923,706	3,746,466	2,923,706	822,760	28.1%
Other liabilities	**236,897**	**191,545**	**236,897**	**191,545**	**45,352**	**23.7%**
Total liabilities towards customers	**38,395,885**	**32,172,441**	**38,334,345**	**32,136,698**	**6,197,647**	**19.3%**
Deposits of financial and non-financial sector entities, including:						
Liabilities in PLN	29,349,659	23,799,960	29,288,119	23,764,217	5,523,902	23.2%
Liabilities in foreign currency	8,809,329	8,180,936	8,809,329	8,180,936	628,393	7.7%
Total deposits of financial and non-financial sector entities	**38,158,988**	**31,980,896**	**38,097,448**	**31,945,153**	**6,152,295**	**19.3%**

In 2018, liabilities to clients were the main source of financing of the Group's activities and accounted for 77.7% of total liabilities and equity of the Group. As at the end of 2018, liabilities to clients amounted to PLN 38.3 billion and were higher by PLN 6.2 billion (i.e. 19.3%) as compared to the end of 2017. The key driver of growth was deposits of clients from the non-financial sector, which increased by PLN 4.0 billion as compared to 2017, and this growth was mainly observed for current accounts and resulted from the consistent strategy which assumed a focus on those accounts.

2.2.3 Source and use of funds

PLN '000	Bank		Capital Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Source of funds				
Funds of banks	1,402,124	1,568,261	1,402,233	1,568,376
Funds of customers	38,395,885	32,172,441	38,334,345	32,136,698
Own funds with net income	7,007,052	6,874,618	7,056,750	6,938,883
Other funds	2,436,963	2,248,644	2,511,386	2,393,639
Total source of funds	**49,242,024**	**42,863,964**	**49,304,714**	**43,037,596**
Use of funds				
Receivables from banks	1,333,816	836,166	1,333,977	836,774
Receivables from customers	21,853,349	19,766,803	21,949,014	19,849,033
Securities, shares and other financial assets	16,609,798	19,734,018	16,537,606	19,656,528
Other uses of funds	9,445,061	2,526,977	9,484,117	2,695,261
Total use of funds	**49,242,024**	**42,863,964**	**49,304,714**	**43,037,596**

2.3 Equity and the capital adequacy ratio

As compared to 2017, shareholders' equity was practically unchanged in 2018 (a slight decrease by PLN 14.6 million. i.e. 0.2%).

Group's equity*

PLN '000	As at		Change	
	31.12.2018	31.12.2017	PLN '000	%
Issued capital	522,638	522,638	-	-
Supplementary capital	3,003,290	3,003,969	(679)	-
Other reserves	2,347,029	2,356,109	(9,080)	(0.4%)
Revaluation reserve	84,372	(9,118)	36,991	(405.7%)
General risk reserve	540,200	540,200	-	-
Other equity	(79,631)	(10,481)	(66,238)	632.0%
Total equity	**6,417,898**	**6,403,317**	**(39,006)**	**(0.6%)**

* *Equity net of net profit/(loss).*

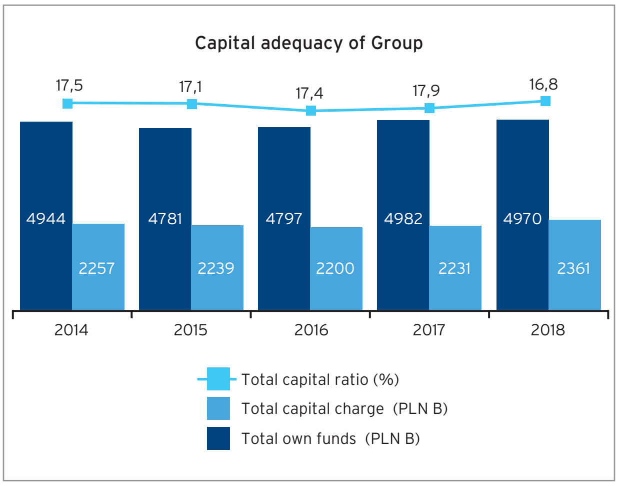
The capital is fully sufficient to ensure financial security of the institution and client deposits and to support the future growth of the Group.

The following table shows the financial data used for calculation of the capital adequacy ratio on the basis of the separate and consolidated financial statements of the Bank and the Group.

Group's capital adequacy ratio*

	PLN'000	31.12.2018	31.12.2017
I	**Common Equity Tier 1 Capital**	**4,970,103**	**4,981,895**
II	**Total capital requirements, including:**	**2,361,451**	**2,230,567**
	credit risk capital requirements	1,893,873	1,749,046
	counterparty risk capital requirements	50,745	57,819
	Credit valuation correction capital requrements	28,466	49,033
	excess concentration and large exposures risks capital requirements	12,459	3,746
	total market risk capital requirements	95,391	82,411
	operational risk capital requirements	280,517	288,512
	Common Equity Tier 1 Capital ratio	**16.8%**	**17.9%**

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



2014-2017 – the Capital Adequacy Ratio was calculated according to the rules stated in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 ("CRR").

2013 – the Capital Adequacy Ratio was calculated according to the rules stated in Resolution No 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 regarding the scope and detailed rules for the calculation of capital requirements against individual risks.

Both in 2018 and 2017, the Group met all the regulatory prudential standards relating to capital adequacy.

In 2018, the capital adequacy level for the Group was always at a secure level, significantly above the supervisory limits.

As at 31 December 2018, as compared to 31 December 2017, the capital adequacy ratio of the Group declined to 16.8%. This value enables the Group to develop its lending activities.

The decline of the capital adequacy ratio in 2018 was caused by an increase of the requirement relating to credit risk in connection with an increase in receivables from clients.

VI. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2018

1. Lending and other risk exposures

1.1 Lending

The credit policy of the Group is consistent and covers the Bank, as parent company, and its subsidiaries (DMBH, Handlowy-Leasing Sp. z o.o.), excluding special purpose vehicles (so called investment vehicles), companies in the course of liquidation or bankruptcy proceedings and companies which do not run their statutory activities. The policy is based on the active management of the portfolio and the precisely determined target markets, designed to facilitate exposure analysis and credit risk analysis at the level of a client's sector. Borrowers are monitored on an ongoing basis to ensure the early detection of any signals of possible deterioration in their creditworthiness and the early implementation of corrective actions.

In 2018, in the area of credit risk management, the Group was focused on:

- supporting the growth of assets;
- optimizing the credit process and adjusting the credit products offered by the Group to market conditions;
- ensuring top quality of the credit portfolio;
- intensifying collection activities for the retail credit exposure portfolio;
- ensuring the effective allocation of capital;
- improving processes for the management of risk generated by models used for credit risk measurement;
- continuing the development of credit risk measurement methodologies.

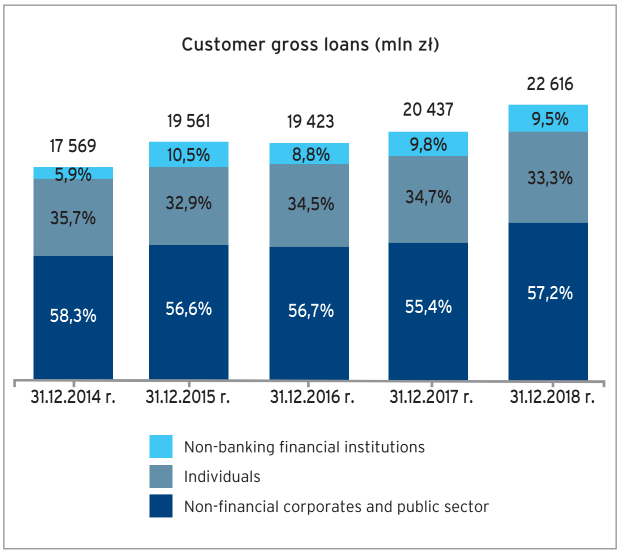
Gross loans to customers of the Group

PLN '000	As at		Change	
	31.12.2018	31.12.2017	PLN '000	%
Loans in PLN	19,146,512	18,059,110	1,087,402	6.0%
Loans in foreign currency	3,469,062	2,377,706	1,091,356	45.9%
Total	**22,615,574**	**20,436,816**	**2,178,758**	**10.7%**
Loans to non-financial sector entities	20,467,368	18,424,326	2,043,042	11.1%
Loans to financial sector entities	2,148,206	2,012,490	135,716	6.7%
Total	**22,615,574**	**20,436,816**	**2,178,758**	**10.7%**
Non-bank financial entities	2,148,206	2,012,490	135,716	6.7%
Non-financial sector entities	12,881,440	11,255,032	1,626,408	14.5%
Individuals	7,535,018	7,092,665	442,353	6.2%
Public sector entities	50,907	76,626	(25,719)	(33.6%)
Non-commercial institutions	3	3	-	-
Total	**22,615,574**	**20,436,816**	**2,178,758**	**10.7%**

As at 31 December 2018, gross credit exposure to clients was PLN 22,615.6 million, i.e. it increased by 10.7% from 31 December 2017. The highest portion of the customer debt portfolio were loans granted to non-financial companies (57%), which increased by 14.5% in 2018. Receivables from individual clients increased by 6.2% as compared to 2017, and their share in the total gross customer debt was 33.3%.

Foreign-currency loans accounted for 15.3% in December 2018, as compared to 11.6% in December 2017. It should be stressed that the Group does not grant loans in a foreign currency to individual clients, but only to businesses which earn revenues in the currency of the loan or to entities which, as the Group believes, are able to foresee or absorb currency risk without putting their financial condition to jeopardy.

In order to avoid a situation where its portfolio would be overly dependent on a small number of clients, the Group monitors the concentration of its credit exposures on an ongoing basis.



Concentration of exposure to customers of the Group

PLN'000	31.12.2018			31.12.2017		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
GROUP 1	799 072	202 774	1 001 846	828 101	115 658	943 759
CLIENT 2	1 000 000	-	1 000 000	1 000 000	-	1 000 000
CLIENT 3	310 424	628 978	939 402	251 522	475 980	727 502
GROUP 4	332 064	472 010	804 074	261 317	574 317	835 634
CLIENT 5	263 100	486 900	750 000	191 400	558 600	750 000
GROUP 6	537 517	180 813	718 330	557 053	83 530	640 583
GROUP 7	107 523	521 365	628 888	18	618 348	618 366
GROUP 8	369 570	253 147	622 717	140 852	150 639	291 491
CLIENT 9	523 638	81 562	605 200	396 000	205 185	601 185
CLIENT 10	600 000	-	600 000	600 000	-	600 000
GROUP 11	-	-	-	74 439	495 376	569 815
Total	**4 842 908**	**2 827 549**	**7 670 457**	**4 300 702**	**3 277 633**	**7 578 335**

* *Net of equity and other securities exposures .*

Concentration of exposure in individual industries of the Group*

Sector of the economy according to the NACE*	31.12.2018		31.12.2017	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,695,369	17.5%	4,458,077	18.3%
Financial intermediation, excluding insurance and pension funds	3,385,386	12.6%	3,039,423	12.5%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,760,531	10.3%	2,645,822	10.8%
Retail trade, excluding retail trade in vehicles	1,084,312	4.0%	825,311	3.4%
Production of food and beverages	1,065,354	4.0%	1,071,761	4.4%
Activities of head offices; consulting related to the management	1,028,293	3.8%	592,729	2.4%
Metal ore mining	939,402	3.5%	727,502	3.0%
Production of metal goods, excluding machines and equipment	929,839	3.5%	657,375	2.7%
Production and processing of coke and petroleum products	893,827	3.3%	884,023	3.6%
Production of motor vehicles, trailers and semi-trailers, excluding motorcycles	862,454	3.2%	633,978	2.6%
10 business sectors	**17,644,767**	**65.7%**	**15,536,001**	**63.7%**
Other sectors	**9,209,893**	**34.3%**	**8,855,908**	**36.3%**
Total	**26,854,660**	**100.0%**	**24,391,909**	**100.0%**

* *Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks), based on NACE Revision 2.*

1.2 Loan portfolio quality

Receivables of the Group are allocated to two portfolios: a portfolio of impaired exposures and a portfolio of not impaired exposures. Significant exposures from the impaired portfolio are assessed individually and for exposures which are not individually significant impairment assessment is carried out using collective (group) analysis.

Loans to customers per portfolio with not recognized credit losses vs. portfolio with recognized credit losses

PLN'000	As of		Change	
	31.12.2018	31.12.2017*	PLN'000	%
Loans without recognized impairment (Stage 1), including:	**20,246,985**	**19,714,214**	**532,771**	**2.7%**
financial institutions	2,148,206	1,995,354	152,852	7.7%
non-financial sector entities	18,098,779	17,718,860	379,920	2.1%
institutional clients**	11,752,193	10,946,510	(97,713,316)	(89.3%)
individual customers	6,346,586	6,772,350	(425,764)	(6.3%)
Loans without recognized impairment (Stage 2), including:	**1,642,100**	**n/a**	**n/a**	**n/a**
financial institutions	-	n/a	n/a	n/a
non-financial sector entities	1,642,100	n/a	n/a	n/a
institutional clients**	832,118	n/a	n/a	n/a
individual customers	809,982	n/a	n/a	n/a
Loans with recognized impairment (Stage 3), including:	**669,671**	**660,094**	**9,577**	**1.5%**
financial institutions	-	17,136	(17,136)	(100.0%)
non-financial sector entities	669,671	642,958	26,713	4.2%
institutional clients**	291,221	322,643	(31,422)	(9.7%)
individual customers	378,450	320,315	58,135	18.1%
Amounts due from matured transactions in derivative instruments (Stage 3)	**56,818**	**62,508**	**(5,690)**	**(9.1%)**
Total gross loans to customers, including:	**22,615,574**	**20,436,816**	**2,178,758**	**10.7%**
financial institutions	2,148,206	2,012,490	135,716	6.7%
non-financial sector entities	20,410,550	18,361,818	2,048,732	11.2%
institutional clients**	12,875,532	11,269,153	1,606,379	14.3%
individual customers	7,535,018	7,092,665	442,353	6.2%
Impairment, including:	**(666,560)**	**(587,783)**	**(78,777)**	**13.4%**
Amounts due from matured transactions in derivative instruments	(50,859)	(54,295)	3,436	(6.3%)
Total net amounts due from customers	**21,949,014**	**19,849,033**	**2,099,981**	**10.6%**
Impairment provisions coverage ratio***	**91.9%**	**80.8%**		
institutional clients**	81.5%	68.3%		
individual customers	99.6%	92.3%		
Non-performing loans ratio (NPL)	**3.0%**	**3.2%**		

* *On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

** *Institutional clients include enterprises, the public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households.*

*** *Index calculated including impairment of receivables in Stage 1 and Stage 2.*

As compared to 2017, the value of impaired loans was stable, with only an insignificant increase by PLN 10 million. The quality of the institutional client portfolio stabilized at a good level, typical of the Bank, and the increased level of charges resulting from financial difficulties of a few clients from the Commercial Bank segment in 2017 confirmed the sporadic nature of that event.

The Bank does not discern any sectoral concentration which could lead to the uncontrolled growth of the NPL portfolio in the future. As at the end of 2018, the non-performing loan (NPL) ratio declined from 3.2% to 3.0% and remains significantly below the sector average.

The Management Board of the Bank believes that the level of provisions of loan receivables as at the balance sheet date is the best portfolio impairment estimate. The individual approach takes into account a forecast of discounted cash flows connected with repayment of debts or recovery from collateral. The collective approach is based on loss indicators calculated on a reliable, historical data base which contains data of clients facing difficulties with repayment of their liabilities to the Bank. And for exposures without any signs of impairment, charges relating to expected losses are calculated in accordance with the requirements of IFRS 9, taking into account the risk profile of a client, the expected recovery rates, based on provided collateral, the probability of a client's non-performance, the historical losses upon non-performance and the macroeconomic scenarios.

As at 31 December 2018, the portfolio impairment value was PLN 667 million, i.e. increased by 13.4% as compared to PLN 588 million as at the end of December 2017. Impairment increased mainly for clients covered by the portfolio approach (by PLN 58.0 million, i.e. 18.1%) and was partially offset by a decline in the balance of impaired loans granted to institutional clients by 9.7%. The provision coverage ratio was maintained at a high level of 92.0%.

Impairment due to financial assets value loss

PLN '000	As at		Change	
	31.12.2018	31.12.2017	PLN '000	%
Impairment due to financial assets value loss				
Impairment due to financial assets value loss - Stage 1	56,110	n/a	n/a	n/a
Impairment due to financial assets value loss - Stage 2	74,776	n/a	n/a	n/a
Impairment due to financial assets value loss - Stage 3	535,674	n/a	n/a	n/a
Total impairment	**666,560**	**587,783**	**78,777**	**13.4%**
Provision coverage ratio Stage 3	91.9%	80.8%		

1.3 Contingent commitments

As at 31 December 2018, the commitment relating to contingent liabilities taken by the Group was PLN 16,797.3 million, i.e. lower by 0.1% as compared to 31 December 2017. The largest portion of total contingent liabilities is still committed loans (i.e. 83%), which declined by PLN 269,477 thousand. Committed loans include promised but not used credit lines and unused overdrafts.

Contingent contingent liabilities granted

PLN '000	As at		Change	
	31.12.2018	31.12.2017	PLN '000	%
Guarantees	2,589,013	2,312,023	276,990	12.0%
Letters of credit issued	137,669	148,607	(10,938)	(7.4%)
Third-party confirmed letters of credit	-	19,376	(19,376)	(100.0%)
Committed loans	14,023,057	14,292,534	(269,477)	(1.9%)
Other	47,587	43,942	3,645	8.3%
Total	**16,797,326**	**16,816,482**	**(19,156)**	**(0.1%)**
Provisions for contingent liabilities	26,481	12,789	13,692	107.1%
Provision coverage ratio	0.16%	0.08%		

Total value of security established on accounts or assets of borrowers of the Bank was PLN 4,385 million as at 31 December 2018, as compared to PLN 3,762 million as at 31 December 2017.

2. External funding

As at 31 December 2018, total external funds of the Bank (obtained from clients and banks) amounted to PLN 39.7 billion and were lower by PLN 6.0 billion (i.e. 17,9%) than the balance as at 31 December 2017. Funds from clients had the largest share in changes of sources of external financing of the Bank's activities. They declined by PLN 6.2 billion (i.e. 19,3%), in connection with an increase in deposits of clients from the non-financial sector by PLN 4.0 billion as compared to 2017, while this increase mainly covered funds on current accounts and was a consequence of the consistently applied strategy to focus on those accounts.

Group's funding from banks

PLN '000	As at		Change	
	31.12.2018	31.12.2017	PLN '000	%
Current account	912,995	1,108,689	(195,694)	(17.7%)
Term deposits	162,737	248,373	(85,636)	(34.5%)
Loans and advances received	1,326	36,467	(35,141)	(96.4%)
Liabilities from securities sold under agreement to repurchase	115,208	9,085	106,123	-
Other liabilities, including:	209,967	165,762	44,205	26.7%
Hedging deposits	208,901	163,769	45,132	27.6%
Total funding from banks	**1,402,233**	**1,568,376**	**(166,143)**	**(10.6%)**

Group's funding from customers

PLN '000	As at		Change	
	31.12.2018	31.12.2017	PLN '000	%
Deposits of financial sector entities				
Current accounts	704,512	531,361	173,151	32.6%
Term deposits	6,335,488	4,321,787	2,013,701	46.6%
	7,040,000	**4,853,148**	**2,186,852**	**45.1%**
Deposits of non-financial sector entities				
Current accounts, including:	24,987,518	22,129,625	2,857,893	12.9%
Corporate clients	11,930,693	10,766,475	1,164,218	10.8%
Individuals	9,380,065	8,536,410	843,655	9.9%
Public entities	3,676,760	2,826,740	850,020	30.1%
Term deposits, including:	6,069,930	4,962,380	1,107,550	22.3%
Corporate clients	3,476,957	3,053,104	423,853	13.9%
Individuals	2,523,267	1,812,310	710,957	39.2%
Public entities	69,706	96,966	(27,260)	(28.1%)
	31,057,448	**27,092,005**	**3,965,443**	**14.6%**
Total deposits	**38,097,448**	**31,945,153**	**6,152,295**	**19.3%**
Other liabilities				
Other liabilities, including:	236,897	191,545	45,352	23.7%
Cash collateral	121,416	112,611	8,805	7.8%
Margin deposits	66,583	40,671	25,912	63.7%
	236,897	**191,545**	**45,352**	**23.7%**
Total funding from customers	**38,334,345**	**32,136,698**	**6,197,647**	**19.3%**

3. Interest rates

The table below presents weighted average effective interest rates of receivables and payables by the respective business segments of the Group:

As at 31 December 2018

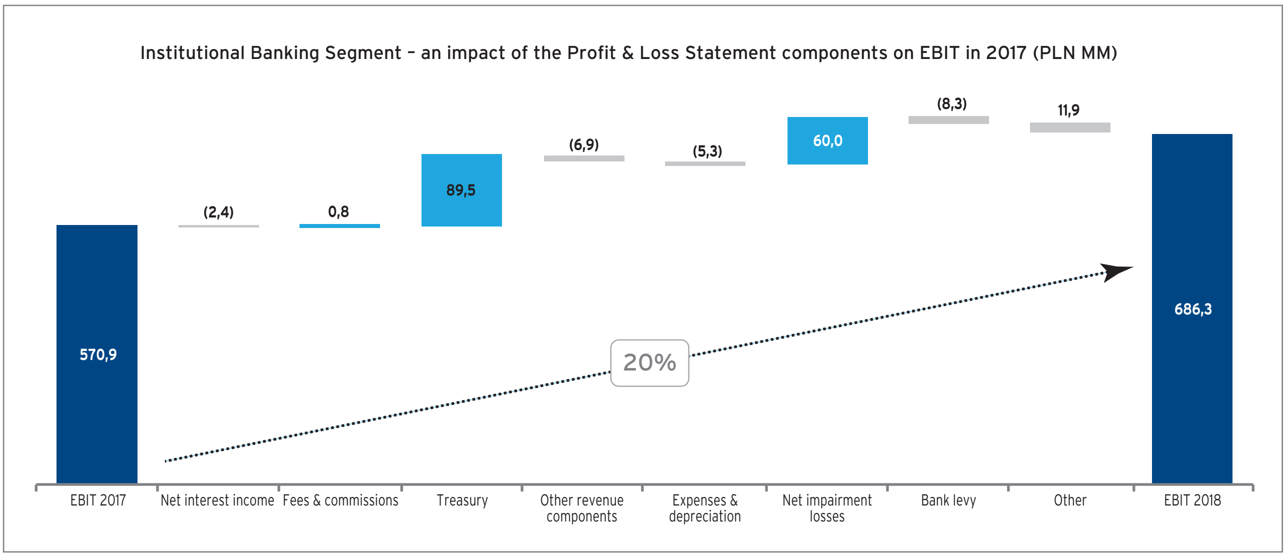
in %	Institutional Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
- fixed term	3.05	1.02	3.73	7.90	4.00	-
Debt securities	2.04	0.12	3.41	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	0.87	0.06	1.14	1.01	0.10	1.32

As at 31 December 2017

in %	Institutional Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
- fixed term	3.09	1.34	2.66	8.44	4.00	-
Debt securities	2.16	0.09	2.08	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	0.94	0.19	1.03	0.96	0.10	0.54

4. Institutional Banking Segment

4.1 Summary of segment's results



In 2018, the pre-tax profit of the Institutional Banking segment rose by PLN 115.4 million, i.e. 20.2%. The following factors affected the pre-tax profit of the Institutional Banking segment in 2018 as compared to the previous year:

- Net interest income of PLN 499.3 million versus PLN 501.7 million in 2017 – a slight decline by PLN 2.4 million, was mainly due to a decline in interest income on debt securities, because of their lower volume and profitability. On the other hand, interest income on client operations increased thanks to the rising credit volumes;
- Net commission income of PLN 283.5 million, as compared to PLN 282.7 million in 2017, in particular due to an improvement in net commission income from transactional activities, as a result of higher business volumes;
- Result on financial instruments held for trading and revaluation in the amount of PLN 335.7 million, as compared to PLN 316.5 million in 2017, in consequence of a higher result on client operations – FX transactions, and result on investment debt financial assets recognized at fair value through other comprehensive income in the amount of PLN 112.6 million, as compared to PLN 35.8 million in 2017, i.e. an increase by PLN 76.9 million due to favorable conditions in Poland's debt market in 2018;
- Other revenues – a decline by PLN 6.9 million as compared to 2017, mainly because of a decline in net other operating revenues and expenses and the result of hedge accounting (no active relations in hedge accounting in 2018);
- General and administrative expenses and depreciation of PLN 509.1 million versus PLN 503.8 million in 2017 – an increase by PLN 5.3 million in connection with an increase in IT expenditure;
- A decline in gains on disposal of other assets by PLN 11.7 million in connection with a one-off transaction completed in 2017;
- A decline in net impairment charges (reversal of net charges of PLN 8.6 million in 2018 as compared to establishment of net impairment charges of PLN 51.4 million in 2017), mainly caused by lower charges for identified impaired loans and repayment of a few credit commitments.

4.2 Institutional Bank

In the area of institutional banking, the Group provides comprehensive financial services to the largest Polish companies and strategic companies with a large potential of growth, and also to the largest financial institutions and to companies from the public sector.

As at the end of 2018, the number of institutional clients (which include strategic clients, global clients and commercial bank clients) was 5,700, i.e. declined by 6% as compared to 2017, when their number was 6,200. Through its commercial bank segment (small and medium-sized companies, large companies and the public sector) the Group cooperated with 3,200 clients as at the end of 2018 (which means a decline by 11% as compared to 3,600 clients as at the end of 2017).

A shared characteristic of the institutional banking clients is that they need advanced financing products and advice relating to financial services. In this area, the Group ensures a coordinated offer of investment banking, treasury and cash management products and prepares loan proposals that cover differentiated forms of financing. The innovativeness and competitiveness of offered modern financing structures is achieved by combining the knowledge and experience of the Group and thanks to cooperation within the global structure of Citigroup.

The table below shows the assets and liabilities by segment in the management accounting approach.

Assets

PLN million	31.12.2018	31.12.2017	Change	
			PLN million	%
Enterprises*, including:	4,774	4,494	280	6%
SMEs	1,582	1,671	(89)	(5%)
Large enterprises	3,192	2,823	369	13%
Public Sector	50	66	(16)	(24%)
Global Clients	3,782	3,271	511	16%
Corporate Clients	5,592	4,819	773	16%
Other**	0	2	(2)	(89%)
Total Institutional Bank	**14,198**	**12,652**	**1,546**	**12%**

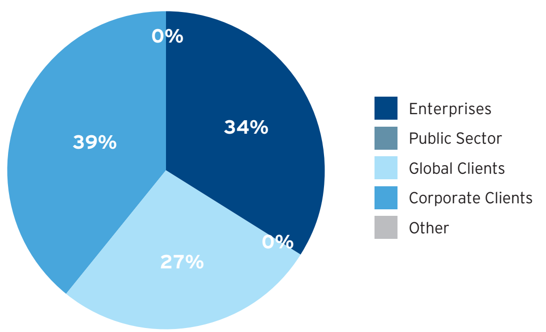
Liabilities

PLN million	31.12.2018	31.12.2017	Change	
			PLN million	%
Enterprises*, including:	4,376	3,865	511	13%
SMEs	2,209	2,129	80	4%
Large enterprises	2,167	1,736	431	25%
Public Sector	4,083	3,313	770	23%
Global Clients	8,484	7,745	739	10%
Corporate Clients	8,645	5,856	2,789	48%
Other**	69	71	(2)	(3%)
Total Institutional Bank	**25,657**	**20,850**	**4,807**	**23%**

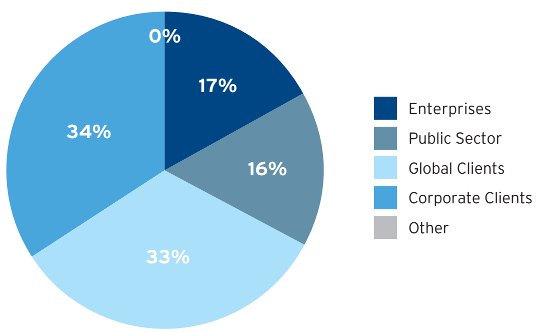
* *Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SMEs) and from PLN 150 million to PLN 1.5 billion (MMEs).*

** *'Other' include, among others, clients subject to restructuring and clients of Handlowy-Leasing Sp. z o.o., who are not clients of the Bank.*

Structure of the Institutional Bank assets as of 31.12.2018



Structure of the Institutional Bank liabilities as of 31.12.2018



Key transactions and achievements in Institutional Banking in 2018:

- In 2018, within the framework of initiatives to expand its relationships with strategic clients, the Bank successfully carried out some key financing transactions, including the following:
  - In January 2018, the Bank signed with a chemical company an amendment agreement to a syndicated loan agreement for PLN 1.6 billion to extend the financing period by 2 years. Citi Handlowy is the Agent with the total commitment of the Bank amounting to PLN 330 million.
  - In February 2018, the Bank prolonged a consortium agreement relating to a bond issue program with a client from the power sector for a total amount of PLN 5.8 billion. Bank Handlowy is the Agent with the total commitment of the Bank amounting to PLN 750 million.
  - In April 2018, the Bank signed a supplier financing agreement with a leading company from the chemical sector. This is the first program of that client, which, ultimately, is to cover tens of its key vendors.
  - In June 2018, the Bank, as a lead arranger, joined a new long-term syndicated loan agreement for EUR 400 million with one of its corporate clients. The Bank's commitment accounted for 16% of the total loan amount.
  - In December 2018, Bank Handlowy and Citigroup carried out the first synthetic securitization transaction in Poland for a Polish bank. That deal covered the SME portfolio and the involvement of the European Investment Fund and the European Investment Bank enabled the client to improve its capital adequacy ratio and capital buffers.

- In addition, in 2018 the Bank, as part of consistent implementation of its strategy to support its clients, also signed:
  - 16 long-term loan agreements, with the Bank's involvement amounting to PLN 845 million;
  - 11 overdraft, revolving and multi-purpose facility agreements for a total amount of PLN 548 million;
  - 10 commitments and guarantees for a total amount of PLN 344 million;
  - 6 supplier financing and reverse factoring agreements for PLN 295 million.
- In the course of implementation of its acquisition strategy and thanks to support provided by its global network and also thanks to a set of its unique technology solutions, the Bank won in 2018:
  - 17 mandates for comprehensive banking services or to enhance existing relationships of the Bank with its clients.
- In 2018, the Bank was focused on initiatives to:
  - Promote e-commerce solutions provided by the Bank – to this end the Bank took part in the conferences "eCommerce Journey" and "E-commerce Standard", dedicated to development of the online sales market;
  - Support its Clients during their preparations for implementation of the Act introducing the VAT Split Payment mechanism – to this end the Bank arranged the Split Payment workshops;
  - Support the newest digital trends and challenges – to this end the Bank participated in the conference "Digital Champion" and carried out, through Citi Commercial Bank, the conference "EMEA Digital Leaders".
- Client acquisition: in the Commercial Bank segment the Bank attracted 180 new clients in 2018, including 26 Large Companies, 146 Small and Medium-Sized Companies and 8 Public Sector entities. In the strategic and global client segments, the Bank established 25 new client relationships.

4.3 Treasury Division Operations

In 2018, Citi Handlowy, again, won the prestigious contest organized by the Ministry of Finance to select the Treasury Securities Dealer (TSD) and, by this, confirmed its strong position in that market segment.

In March 2018, during the review of the Stock Market Year 2017, the Bank was named the "Market-making leader in the Treasury BondSpot Poland market" and the "Spot market leader in the Treasury BondSpot Poland market".

Citi Handlowy has been one of the key entities in the field of custody operations for years, covering the largest and the most demanding institutional customers. Citi Handlowy is constantly committed to optimize solutions to meet the needs of the clients.

The CitiFx Pulse platform incessantly enjoys enormous confidence among our clients. About 80% of all FX transactions are executed via that platform. On the platform, clients may execute transactions on their own at times that are convenient for them and can conclude up to 300 transactions with various dates with only one click. The platform ensures that our clients have 24/7 access to quotations and continuous access to market information. It also enables them to manage their currency exposures, create useful reports and confirm transactions online. It is an innovative and convenient tool that provides automated FX solutions.

Innovative eCommerce solutions launched in 2018 enabled the full automation of valuation and sales in many currencies, while reducing the exchange-rate risk to which the seller is exposed. Via APIs, such a solution can be fully integrated with systems of the client. Automation allows the effective processing of high volumes of low-amount transactions, which makes the solution especially useful in online sales.

Development of electronic channels for sales of FX instruments ("eSolution") is an inseparable part of the business strategy of the Bank. The Bank is developing solutions that can connect financial systems of Clients (ERPs) with systems of the Bank. Such solutions enable Clients to increase their operation efficiency by offering instant and automatic access to FX products of the Bank and create a shared data exchange platform.

The Bank was active in debt securities market where it participates in the following transactions:

- Four consortium-led issues of 6- and 7-year bonds for the European Investment Bank for the total amount of PLN 3.5 billion;
- A consortium-led issue of 3-year bonds for PLN 500 million for a Polish bank;
- A synthetic securitization transaction for a Polish bank to increase its capital adequacy ratio and improve its capital buffers.

4.4 Transactional banking

Citi Handlowy is a leading provider of transactional banking services. For the fifth year in a row, the transactional services provided by Citi Handlowy won the "Euromoney" ranking as the best services in Poland. This award is granted on the basis of assessments of clients, who chose the leader of the financial sector yet again.

At present, the transactional banking product range includes:

- Electronic banking;
- Deposits and current accounts;
- Liquidity management products;
- Cross border (international) transfers;
- Card products;
- Payments and receivables: Direct Debit, SpeedCollect;
- Cash products;
- EU-funding advisory services;
- Trade finance products.

Electronic banking

In 2018, Citi Handlowy initiated activities to improve its electronic banking system, following the development trends in the area of advanced technologies. The CitiDirect BE system was modified to comply with the most recent regulations, by launching a VAT Split Payment Mechanism. Additionally, some key functionalities of the system were upgraded and the process used for activation and configuration of user rights was streamlined.

The Bank encouraged institutional clients to use its eWnioski electronic documentation exchange platform, which can almost entirely eliminate paper documents. The Bank also promoted the MobilePASS application which ensures secure access to the CitiDirect BE electronic banking system via a smartphone and is an alternative to traditional devices that generate codes allowing access to the platform.

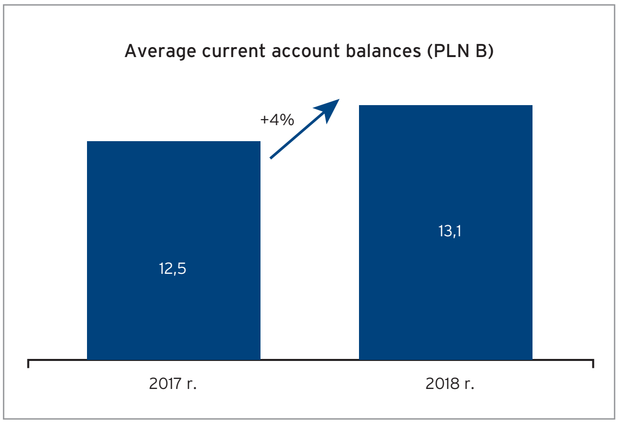
Innovations introduced by the Bank in the area of on-line services improve the security of the clients' funds and enable the Bank to operate faster and more efficiently.

In 2018, the Bank processed approximately 26 million transactions via electronic channels. Presence in the market of advanced e-banking services is a key element of the current strategy, created to provide more and more convenient solutions to clients.

Deposits and current accounts

One of the most important elements of the Bank's strategy is concentration on the acquisition and maintenance of operating accounts. In 2018, the average level of balances on current accounts of institutional clients increased by 4% from 2017, to PLN 13.1 billion.

A current account gives access to all products of Citi Handlowy. Funds accumulated by the client that are not used to finance ongoing activities can be moved to term deposits or stay on a current account with a higher interest rate. The Bank also offers, among other things, negotiable deposits, automatic deposits and blocked deposits.



** difference may result from rounding*

Liquidity management products

Liquidity management solutions reduce debt and decrease the costs of its servicing, while maintaining ability to pay liabilities. Liquidity management instruments enable the optimization of cash flows at the level of a single client or a single group of companies. The Bank provides solutions for the optimized management of liquidity surplus generated by companies and businesses with higher capital needs. Liquidity management products include:

- Consolidated account;
- Real cash pooling;
- Netting.

Cross-border fund transfers

The Bank has a comprehensive and very broad range of settlements in over 130 currencies worldwide. Striving to meet its clients' needs, the Bank enhanced its multicurrency account proposal by an option enabling its users to receive payments in exotic currencies (like Chinese yuan, Mexican peso, Indian rupee or Brazilian real). This is a unique solution in Poland's market.

Card products

In 2018, the Bank implemented contactless payments for clients that use its Business Cards and the Bank gradually extends the range of services offered on the platform that support Business Cards, which was started in the previous year. As part of those works, the PIN distribution and card activation process was automated, leading to reduction in labor intensity in the area of customer service.

In the area of prepaid cards, the Bank launched services that are based on API communication, with which prepaid card holders can check online their available balances. API-based communication tools also enable the automation of the card activation and blocking process and improve the PIN management process.

In addition, in 2018 the Bank introduced the 3D Secure service, i.e. an additional mechanism to improve security of transactions carried out without the physical use of a Business Card, and, by this, reduced the risk of fraudulent transactions.

At the end of the first quarter of 2018, Citi Handlowy launched a new card product, i.e. the Business Executive Card, which is at present one of the most prestigious cards in the corporate market. It includes a package of ten especially-selected benefits, such as free access to more than a thousand Executive Lounges in airports throughout the world, fast security check at Chopin Airport in Warsaw and access to more than 20 million hotspots on all the continents and unlimited access to the Polityka Insight portal.

The Bank continued the commercialization of its Your Card in Travel service (www.kartybiznes.pl), dedicated to holders of Business Cards. The number of visitors of that service was 5,600 by the end of the year.

In that period, the value of cashless transactions with deferred payment date processed by the Bank increased by over 15%. For debit cards, the value of cashless transactions rose by 40%.

Payment and receivables processing: Direct Debit and SpeedCollect

The Bank offers convenient and effective payment and receivable processing tools. These advanced solutions are designed for companies and institutions that have mass customers that buy their products and services.

- Direct debit

This tool enables the effective collection of receivables from payers, while reducing collection costs. Citi Handlowy is the leader of the direct debit segment (it processes the highest transaction volumes in the market) and, moreover, as the only bank in Poland, it has a text messaging option for payers (Comfort Direct Debit).

- SpeedCollect

SpeedCollect is a service for automated booking of receivables, dedicated to creditors – recipients of mass payments. The virtual account functionality makes it possible to include in the account number some details considered important by creditors, such as the contractor number or the number of the creditor's sales unit that settles its proceeds. The volume of SpeedCollect transactions processed by Citi Handlowy is continuously at a very high level in that market segment.

Cash products

The Bank provides its clients with comprehensive cash management services. The closed-deposit service is available throughout Poland, in more than 1,200 locations (Cash Processing Centers and Post Offices). In addition, the Bank offers open-deposit services through more than 4,500 outlets, in partnership with Poczta Polska S.A.

In 2018, activities connected with preparation of deposit payments, tracking of the closed cash deposit status and reports on expected funds were optimized. In addition to cash deposits, clients of the Bank also use withdrawals and money transfers. In partnership with Poczta Polska S.A. they are executed by all post offices of Poczta Polska S.A. in the entire territory of Poland.

EU-funding advisory services

In 2018, the energy efficiency programs carried out by Bank Handlowy w Warszawie under the agreements signed with Kreditanstalt für Wiederaufbau (KfW) in 2012 and 2014 reached their financial closure. Under those programs, the Bank offered both refundable (loans) and non-refundable (grants) financing to its Clients (using EU funds to this end). The ELENA, MFF EE and SME EE programs supported local and regional governments and other public actors, as well as private businesses, in their efforts to finance projects aimed at improving energy efficiency (thermomodernization of buildings, replacement of systems and equipment for energy efficient solutions).

Trade finance products

The trade finance proposal of Citi Handlowy covers various solutions, such as letters of credit, bank guarantees, collection, trade credit, a supplier and distributor financing program and factoring. As compared to the previous year, the assets rose by 10%, which means a significant increase in sales volumes in that product segment. The Bank is still a leader among of providers of supply chain financing.

In 2018, the Bank achieved a huge increase in volumes of issued e-guarantees (by 474% YoY). In the last quarter of 2018, e-guarantees accounted for nearly 20% of the total volume of guarantees issued by the Bank.

The Bank's results improved versus 2017 also for the other trade finance products. The number of letters of credit opened by the Bank was higher by over 3%.

4.4.1 Custody and depositary services

The Bank runs its custody operations under Polish law and in accordance with international standards of custody services offered to investors and intermediaries active in international securities markets. The Bank can meet the requirements of the largest and most demanding institutional clients.

The Bank provides custody services for domestic and foreign institutional investors and services of a custodian bank for domestic pension and investment funds. For many years, Citi Handlowy has been a leader in the Polish market of depository banks.

As part of its statutory activities, under a license issued by the Polish Securities and Exchange Commission (at present, the Polish Financial Supervisory Authority (KNF)), the Bank maintains securities accounts, settles securities transactions, processes dividend and interest payments, provides valuations of asset portfolios, delivers individual reports and arranges representation at general meetings of shareholders of listed companies. The Bank keeps collective accounts for authorized foreign entities.
In addition, the Bank provides services consisting in maintenance of registers of foreign securities, under which it acts as intermediary in settlements of transactions executed by domestic clients in foreign markets.

The Bank also provides services as operator of accounts kept in the name of a client at the KDPW S.A. (Polish central depository and clearing institution), under which the Bank passes orders received from the client to KDPW and vice versa, as well as settlement confirmations and statements to accounts opened at KDPW to the client of the Bank. This service is dedicated to foreign financial institutions, in particular depository and settlement ones (financial entities classified as ICSD – International Central Securities Depository) and covers the management of securities accounts and collective accounts of such entities.

In 2018, the Bank maintained its leading position in the market of securities transaction settlements carried out for remote members of the Warsaw Stock Exchange and BondSpot.
In addition, the Bank was still the leader of settlements of transactions concluded by foreign institutional clients on the Treasury BondSpot Poland debt securities electronic platform, managed by BondSpot S.A.

The Bank put its custody operations in line with the directive on markets in financial instruments ("MiFID II"), which is to further improve the transparency of activities of investment firms and banks and the level of protection offered to investors in capital markets.

As at 31 December 2018, the Bank maintained over 14.3 thousand securities accounts.

Simultaneously, the Bank acted as depositary of two open-end pension funds: Aviva OFE Aviva Santander, Nationale - Nederlanden OFE, two voluntary pension funds: Nationale - Nederlanden DFE, Generali DFE, and the Employee Pension Fund Orange Polska.

The Bank was also the depository of investment funds managed by the following Investment Fund Companies: Santander TFI S.A., PKO TFI S.A., Esaliens TFI S.A., Aviva Investors Poland TFI S.A. and Templeton Asset Management (Poland) TFI S.A.

In 2018, preparations were started to establish cooperation with companies offering Employee Capital Plans. At the same time, the Bank continued its activities to help refine legal regulations applicable to the securities market. A representative of the Bank was the Chairman of the Steering Committee of the Council of Depository Banks at the Polish Bank Association ("Council") for the fifth consecutive term of office. In the reporting period, the Council was involved in activities to improve contractual standards and recommended good practices relating to performance of the function of an investment fund depositary in line with the requirements of AIFMD and UCITS V (EU directives).

The Council proactively participated in efforts to provide opinions on other draft regulations affecting activities of domestic custodian banks. With the use of its own resources, experience and competences, employees of the Bank, in cooperation with the Polish Financial Supervision Authority, KDPW, KDPW_CCP and the Warsaw Stock Exchange, participated in consultations about the implementation of new solutions in the Polish capital market as part of works of working groups established by the Council, and in projects carried out by market working parties.

4.5 Brokerage Activity

The Group runs brokerage activities in the capital market via Dom Maklerski Banku Handlowego S.A. ("DMBH"), a wholly-owned subsidiary of the Bank.

As at the end of 2018, DMBH was the market maker for 61 companies listed on the Warsaw Stock Exchange (of which 20 from the WIG20 index), i.e. 13,2% of the shares listed in its main equity market.

In 2018, DMBH was the intermediary in in-session transactions accounting for 7.8% of equity turnover in the secondary market. The value of the in-session transactions concluded via DMBH in the equity market on the WSE was PLN 31.9 billion and declined by 29% as compared to last year, with decline in turnovers on the WSE by 14%. At the same time, the structure of in-session turnovers changed – the share of turnovers on the client's account in total turnovers declined and the share of turnovers on DMBH's own account in total turnovers increased.

The number of investment accounts maintained by DMBH was 13.9 thousand as at the end of 2018 and increased by 1.5% from the previous year. The growth of the number of investment accounts was still fuelled by a regular increase of the number of agreements concluded for foreign market services.

A key factor that contributes to DMBH's performance is the investment activity of institutional investors, which in turn depends on the equity market situation and inflows of funds.
A chance to increase the activity level in that client segment may be the launch of Employee Capital Plans (expected in 2019). From the perspective of activities of the brokerage house, a significant element affecting the market is the implementation of MIFID II.

Summary financial data as at 31 December 2018*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2018
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	364,086	98,777	1,250

* *pre-audit data.*

4.6 Leasing

In the fourth quarter of 2016, the Bank decided to acquire the remaining performing portfolio from Handlowy Leasing Sp. z o.o. The transaction became effective as at the end of the first quarter of 2017.

The leasing products are still offered by the Bank's Group as part of the so-called „open architecture", which is a partnership cooperation with entities not being part of the Bank's Group

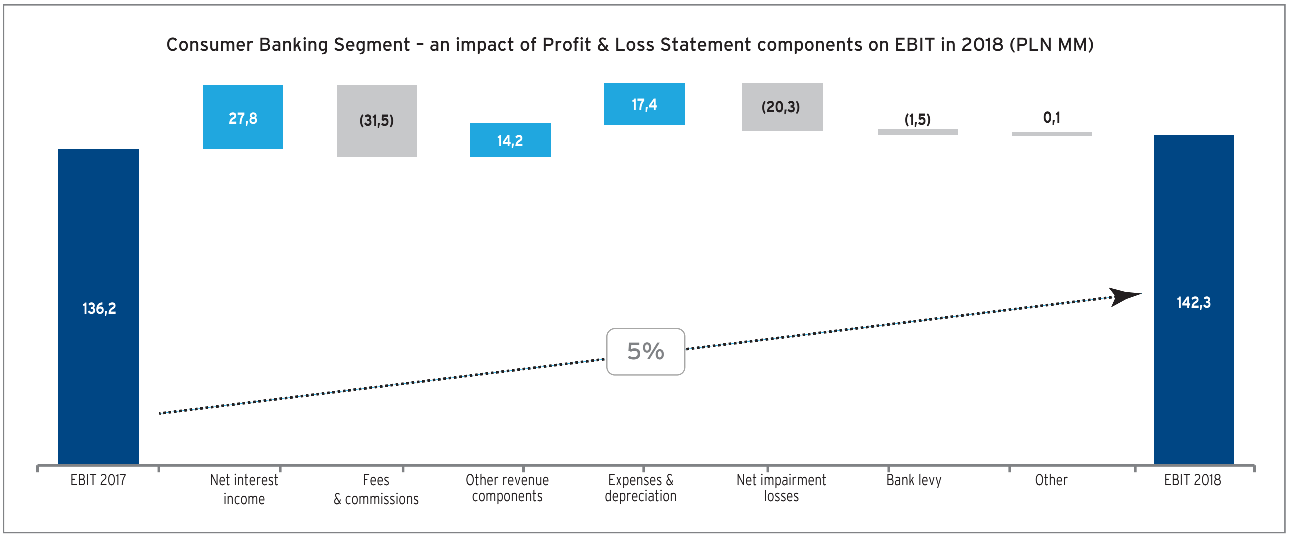
Summary financial data as at 31 December 2018*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2018
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	22,154	21,906	(524)

* *pre-audit data.*

5. Consumer Banking Segment

5.1 Summary of the segment's results



In 2018, the pre-tax profit of the Consumer Bank segment recorded increase by PLN 6.1 million, i.e. 4.5%: The following factors affected the pre-tax profit of the Consumer Bank segment in 2018 as compared to the previous year:

- an increase in net interest income as a result of higher credit volumes (+6% y/yYoY), partially offset by higher interest expenses resulting from the significant growth of deposits (+8% YoY), also due to an attractive promotional offer applied as an acquisition tool to attract new affluent clients (an increase in the number of active clients in the segments Citi Private Client and Citigold by 11% YoY);
- a decline in net fee and commission income, primarily on sales of investment products as a result of worsened market sentiment;
- a decrease in operating costs, thanks to savings generated by initiatives implemented to optimize the cost basis, partially reinvested in marketing and technology.

5.2 Selected business data

	2018	2017	Change	
			PLN '000	%
Number of individual customers	687.4	691.7	(4.3)	(0.6%)
Number of current accounts, including:	460.6	463.2	(2.6)	(0.6%)
number of operating accounts*	101.6	100.9	0.7	0.7%
Number of operating accounts newly acquired in the period*	31.2	37.1	(5.9)	(15.8%)
Number of savings accounts	140.8	144.4	(3.6)	(2.5%)
Number of credit cards, including:	679.9	702.9	(23.0)	(3.3%)
Number of debit cards, including:	245.8	251.2	(5.4)	(2.2%)

* *In the first quarter of 2018, there was a change in the classification of operating accounts. 2017 was adjusted.*

5.3 Key business achievements

Bank accounts

Current accounts

The total balance on the accounts increased by over 12% and exceeded PLN 6.3 billion. The number of personal accounts was 460,000 as at the end of 2018 (at the end of 2017: 463,000). Of that number, 260,000 were PLN accounts and 200,000 accounts in foreign currencies.

Savings accounts

The number of savings accounts dropped to 140,000 as at the end of 2018, however their total balance increased to PLN 2.8 billion, as compared to 144,000 savings accounts with PLN 2.7 billion in the same period in 2017.

Changes in the offering

In March 2018, an adjusted Table of Fees and Commission became effective. For clients having a Citi Priority personal account, a fee for the use of the CitiPhone telephone banking service was introduced. Clients may cancel that service free of charge, while retaining the possibility to block their Debit Cards and file complaints with CitiPhone Consultants and to use, free of charge, the Automatic Banker functionality (interactive response system). ATM cash withdrawal limits and Citibank Online transfer order limits were raised.

Those changes are consistent with the digitization strategy adopted by the Bank. The new fee and commission model and the higher transaction limits incentivize clients to use online banking, where the majority of services are provided free of charge.

In 2018, the Bank launched various solutions aimed at improving the clients' experience when using bank accounts. For example, the Bank introduced, in the Citibank® Online service, a function that enables clients to change their contact details or send documents to the Bank. In addition, Google Pay (phone payments) and Express Elixir (instant payments) were introduced.

As in the previous year, the Bank was focused on attracting new Citigold, Citigold Private and Citi Priority clients. This objective was supported by promotional proposals for new clients, traditional and online advertising and via Tele Gold and Tele Priority (telephone customer service). In August 2018, the Bank added the Primary Payment Account to its product range to allow those clients who have not had an account at the Bank yet to get a charge-free account. Simultaneously, for clients searching for full digital solutions, the Bank initiated a campaign to promote the Citi Priority Online Account.

In 2019, the Bank is going to continue its strategy that is focused on increasing the client portfolio and balances in selected segments, with particular emphasis on the digitization of the acquisition process. The Bank also wants to develop the Citigold recommendation program by reinforcing communication via Citibank® Online and in social media and by enhancing education programs for Citi Handlowy's staff.

In February 2018, Citi Handlowy was rewarded, again, by Euromoney, a prestigious British financial magazine. In the 15th edition of the annual survey of the private banking market, the Bank was appreciated in four categories, including in the main category: for the best private banking proposal in Poland. Private banking from Citi Handlowy was also rewarded with the highest prize, i.e. 5 stars, in the private banking ranking of Forbes magazine. The awards granted to the Bank confirm the effectiveness of its activities in that area.

Credit cards

As at the end of 2018, the number of credit cards was 680,000. The total debt on credit cards amounted to PLN 2.7 billion as at the end of 2018 and increased by 7.3% from the end of 2017. In consequence, the Bank maintained its leading position in the credit card market in terms of the value of loans on credit cards, with the market share of 25% as at end of November 2018.

In 2018, credit card acquisition was at a stable high level, as in the prior year, and amounted to about 50,000 cards. This was achieved thanks to intensive acquisition activities of the Bank which made its credit card proposal more attractive. As a result, in 2018 the Bank was honored with the Golden Banker award for the best credit card: Citi Simplicity.

In 2018, the quality of card acquisition and a high share of cards acquired on the basis of the client's documented income data were maintained, which translated into a higher activation level and a higher transactional activity of the newly acquired clients.

The Bank consistently diversifies its acquisition channels while continuously optimizing its sales processes.

Credit products

Cash loans and installment products on credit card accounts

The balance of unsecured loans (cash loans and loans on credit card accounts) amounted to PLN 2.7 billion as at the end of 2018.

In 2018, the total sales of unsecured loans, including cash loans for credit card holders, amounted to PLN 1,236 million.

Mortgage products

As at the end of 2018, the mortgage loan portfolio amounted to PLN 1.7 billion, i.e. it increased by 12% from the end of 2017, which means that the portfolio growth rate achieved in 2017 was maintained. In 2018, sales of mortgage products amounted to PLN 357 million or 12% above the level recorded in 2017.

Investment and insurance products

Investment products

As at the end of 2018, the funds under management as part of investment products (including investment insurance products, without dual currency investments) acquired by retail clients via the Bank were 5% lower as compared to the same period in 2017.

As part of its cooperation with DMBH, the Bank provided its clients with access to 14 issues of investment certificates of closed-end investment funds and 3 public offerings of bonds.

In the structured product segment, the Bank completed 109 subscriptions for PLN, USD, GBP and EUR denominated structured bonds in 2018.

In the open-end investment fund segment, the Bank added 28 equity, mixed and bond funds in various currencies to its product range in 2018.

Insurance products

The Bank still offered insurance products, while focusing on those distributed via Citigold branches, under the model where clients are served by insurance specialists who provide their clients with expert support in the area of financial planning using insurance products.

With respect to insurance products offered in cooperation with Towarzystwo Ubezpieczeń na Życie WARTA S.A., additional changes in offered life insurance products were made in 2018 to optimize processes used for signing insurance contracts and to modify products to make them more attractive.

6. Development of distribution channels

6.1 Direct acquisition

In 2018, the Universal Bankers retail distribution channel continued its new client acquisition strategy while focusing on three key products: credit cards, Citi Priority account and cash loans. As in previous years, mobile sales force carries out its activities throughout Poland from local branches situated in 6 cities.

While continuing to use the functional model of that channel, mobile bankers were even closer to target clients. Last year, some

Smart Mini points were relocated between shopping centers in accordance with the assumptions of refreshment of the sales potential from time to time with the cost effectiveness of the formula unchanged, and, simultaneously, with the continued presence in corporations and public administration entities.

Universal Bankers also supported activities to build the perception of Citi Handlowy as an innovative institution that both offers state-of the art solutions and is client oriented, by participating in a summer roadshow with a Mobile Smart Mini, where mobile bankers carried out sales activities during various social and cultural events, such as air shows, auto shows or sports events.

6.2 Branch network

Citigold and Citigold Private Client outlets

As at the end of 2018, the network of outlets dedicated to affluent clients included 10 branches, divided into three outlet types: Smart Hub Gold (2 branches), Hub Gold (7 branches) and Investment Centre (1 branch).

The year 2018 was a time of accelerated transformation of Hub Gold branches, leading to relocation of some outlets.

New branches in the network dedicated to affluent clients were opened in four regional capital cities: Poznań, Łódź, Wrocław and Szczecin. Striving to ensure top quality services and to improve availability, it was decided to deploy those branches in city centers. Those outlets were opened in modern office space, in famous office buildings. This change considerably improved both quality of service and comfort of clients using sales services. Technologies deployed in the branches allow using advanced solutions which give Clients access to services of the Bank via standard channels of direct service or remote channels. Each of the new branches has space dedicated to the most affluent customers – Citigold Private Clients.

Development of Smart Ecosystem

For the branch network of Citi Handlowy, the year 2018 was a time of continuation of the Bank's strategy and consolidation around the Smart Ecosystem, built on the objective to develop outlets in places that are most often visited by our clients. In connection with changing behaviors of our Clients and the rise of new technologies, two Smart branches were closed and, as a result, the operating effectiveness of the other outlets improved.
As at the end of the period, the Smart branch network consisted of 14 outlets, in two categories: Smart (12 branches) and Smart Hub Gold (2 branches). Smart outlets are situated in the 7 biggest cities, where the Bank invariably sees the largest potential in the target client segments it has chosen as the basis of the development strategy for consumer banking.

Number of branches (at the end of period)

	31.12.2018	31.12.2017	Change
Number of branches (at the end of period):	**23**	**26**	**(3)**
- HUB Gold	7	8	(1)
- Smart Hub Gold	2	2	-
- Investment Center	1	1	-
- Smart Branches	12	14	(2)
- Corporation Branches	1	1	-
Other POS:			
Smart Mini	3	4	(1)

6.3 Internet and telephone banking

Online banking

The online platform for retail and macro clients is built in a responsive technology, i.e. it can adapt itself to the device used by a client. Modern design was inspired by comments of clients and extended functionality makes other channels unnecessary. One of the improvements is for credit card holders, which can manage their card limit, convert transactions into installments or buy insurance products by themselves. In addition, a new documentation management module has been added, which enables its users to send correspondence, to accept agreements and to download certificates from home.

The number of active users of Citibank Online, i.e. those who logged in to the online or mobile banking service via a browser or the Citi Mobile application at least once in every 90-day period, was 399,000 as at the end of Q4 2018, which is a increase by 6,000 users as compared to the corresponding period of 2017. The share of active Citibank Online users in the entire client portfolio of the Bank was 59.1% as at the end of the fourth quarter of 2018, i.e. it increased by 1.5 p.p . as compared to the fourth quarter of 2017.

At the same time, as at the end of the fourth quarter of 2018, digital users accounted for 81% of all transactionally active clients, which means an increase by 1.5 p.p. as compared to the fourth quarter of 2017.

The Bank is working on the implementation of a new mobile application, which will be made available to Credit Card holders in the first quarter of 2019.

Mobile Banking

Responsive technology gives the client access to all functionalities in Citibank Online on any device they may use. In addition, clients have access to the mobile application which features such functions as viewing account balances without signing in (Snapshot), free Push notifications, which keep the client updated of changes on the account or card, and login activation with the use of a fingerprint, which makes access to the application easier.

As at the end of Q4 2018, the number of active users of mobile banking, i.e. those who used mobile banking at least once in every 90-day period via the application or Citibank online in responsive technology, exceeded 207,000, i.e. increased by about 22% as compared to Q4 2017.

The share of active users of mobile banking in the retail client portfolio of Citi Handlowy was 30,6%, i.e. increased by 5.7 p.p. as compared to the same period in 2017.

Social media

In 2018, Citi Handlowy continued its activities in social media, which are a vital channel for both contacts and interactions with clients. In its day-to-day communication, the Bank not only focused on providing information on current offerings or promotions, but also sent invitations to special events and competitions to fans – every day posts published by the Bank were received by nearly 90,000 Facebook users. In 2018, the Bank reached about 4.45 million users on Facebook.

In 2018, Facebook was also a key tool used for processing of client inquiries – all fan commitment indicators significantly improved and the average inquiry response time was 7 minutes. The Bank has 146,000 fans.

7. Changes in IT technologies

In 2018, a strategic goal of the Bank in the area of IT technology was to continue increasing the competitiveness of the Bank by providing top quality products and services with the extensive use of innovative solutions, digitization and automation and concurrently with cost optimization. In accordance with prevailing market trends, the technology of the Bank is based, to a large extent, on centralized services and outsourcing. The services centralization processes enable the Bank to generate savings, improve quality, standardize processes and ensure a high level of control and information security. As the promotion of electronic distribution channels and the decision to link banking products with the most advanced technologies, including online and mobile solutions, are vital components of the Bank's strategy, the Technology Division of the Bank focused its activities on the development and implementation of solutions which support those business objectives. It was possible because of innovation, automation and leading edge project management and implementation method, but also thanks to very close cooperation between business and technology units and with market partners (FinTechs, startups) from the creation of the concept of a banking product to its full-scope implementation in the production environment.

IT processes of the Bank are executed in accordance with international standards, which was confirmed, in the first quarter of 2018, by the positive outcome of recertification audits of compliance with ISO 20000 (Information technology – service management), ISO 27001 (information security management) and ISO22301 (business continuity management).

The most crucial modifications and improvements implemented in 2018 included:

- **in institutional banking:**
  - **finalization of migration of commercial cards for institutional clients to a new platform implemented in 2017** in order to enable the continued development of a card product for companies. With the implementation of the new platform, the corporate clients were given additional possibilities of use of EMV chip cards and access to data via digital front-end systems. The Bank expects that the new platform will intensify client acquisition in the corporate card product area,
  - **implementation of solutions that increase the level of digitization for communication between the Bank and its clients** – new solutions will be implemented to increase the digitization of communication between clients and the Bank. As a result of new changes, more and more clients can use digital channels to submit and download documents to/from the Bank. The Bank expects that those changes will increase the level of digitization of communication and reduce the volume of non-digital documents exchanged with its clients,
  - **migration of the voice communication and recording system in the area of Financial Markets and Corporate Banking to IPC Unigy/NIM 4.1** – migration is to mitigate operational risk, for example by raising the redundancy level of this environment, which is crucial for transactional operations,
- **in consumer banking:**
  - **launch of the Android Pay service for Mastercard debit and credit cards** – online banking and mobile banking are the two fastest growing areas of the cashless payment market. Poland is one of the markets where mobile payments are the most popular, have a huge development potential, and the number of virtual cards is growing rapidly. This trend is fuelled by the fact that nearly all terminals support proximity payments, which already account for more than 60% of all transactions. Therefore, the Bank decided to implement the Android Pay functionality, which enables its users to make proximity payments via a smartphone, without the physical use of a card, in a modern, fast, simple and efficient way,
  - **launch of KIR instant payments for retail clients (Express Elixir)** – introduction of a new innovative method for making payments in less than 30 seconds, dedicated to retail clients and small and medium-sized enterprises, while maintaining invariably high transaction security standards. This is to improve the clients' experience level measured by the NPS indicator and to increase revenues as a result of the expected growth of the total number of transactions,
  - **automation and digitization of sales processes (straight through processing) in the area of consumer banking products** – for credit card, cash loan and account-related processes,
- **in the scope of adaptation of systems of the Bank to ensure their compliance with regulatory requirements:**
  - implementation of regulatory changes to introduce at the Bank a new type of payment for business clients, the so-called **Split Payment**. Implementation of changes in IT systems ensured full compliance of the Bank with the new regulation issued by the Ministry of Finance. As a result of the implementation, the full-scope functionality of the Split Payment mechanism was made available to Business Clients of the Bank,
  - implementation of regulatory changes to ensure compliance of IT systems of the Bank with the requirements of the General Data Protection Regulation **(GDPR)**, which became effective in May 2018. Those changes put the IT systems of the Bank in line with the new European regulation,
  - implementation of regulatory changes to adapt IT systems of the Bank to further requirements of the new regulation on markets in financial instruments **(MIFID 2)**. As a result, the Bank's compliance with additional requirements of MIFID 2 was ensured,
  - implementation of regulatory changes to adapt IT systems of the Bank to the requirements of financial market regulations connected with **PSD2.** As a result, the Bank's compliance with new requirements of PSD2 which came into force in 2018 was ensured,
  - implementation of regulatory changes to adapt IT systems of the Bank to the requirements of the Payment Account Directive,
  - implementation of regulatory changes to adapt IT systems of the Bank to the requirements of the AML regulations (anti-money laundering and combating of terrorist financing),
- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - completion of migration of the "Sitekiosk" application to a new version, which opens new opportunities for applications used by Smart branches,
  - implementation of an application used to monitor the location and other login parameters to improve the security of the information and communication technology environment,
  - implementation of improvements to increase the security of use of the CitiBank Online platform, including the implementation of additional authentication mechanisms at the server level to secure the systems against possible attacks and manipulation of data of defined customers of the client,
  - introduction of improvements in mobile banking for retail clients to minimize the exposure of applications to the risk of fraudulent transactions,

- change of technology and an increase in capacity of international telecommunication lines of the Bank to enable the practical elimination of limitations in that area and the faster response of Technology to increasing business needs in the area of data transfers over the network,
- upgrades of firewalls/B2B and network and telecommunication infrastructure in 15 locations of the Bank, in accordance with the needs of the Business and in order to mitigate EoVS risks.

Technology units proactively develop and improve their portfolios of services to fully meet both current and future business needs of the Bank. They propose and deliver to their business partners optimal technology solutions used to build competitive advantage. Technology units proactively support initiatives which enable a broader use of information technologies that automate processes at the Bank and increase the services digitization level.

Pending and not completed initiatives and modifications of systems which will affect the operations of the Bank in the near future are presented below:

- **in institutional banking:**
  - **implementation of systems which support activities of the Financial Markets Sub-sector in the area of derivative instruments** – implementation of the new platform is carried out to use more advanced product solutions offered in Citi group of companies and to execute the strategy of consolidation of product solutions; as a result of that implementation the Bank expects a higher effectiveness and automation of processing of derivative instruments,
  - **implementation of solutions for robotization of operating processes of the Bank** – the platform for robotization of business process is being implemented to increase the effectiveness of back-office processes used by the Bank; as a result of that implementation the Bank expects an increase in effectiveness and automation of back-office processes,
- **in consumer banking:**
  - continued **automation and digitization of sales processes (straight through processing) in the area of consumer banking products** – for credit card, cash loan and account-related processes,
  - launch of a service that allows for **automated confirmation of a client's identity** – in order to accelerate and increase the acquisition of new clients,
  - **continued improvement of the online and mobile banking platform** (addition of a new functionality and products) in order to increase the client satisfaction level, revenues and security,
  - **migration of the Autodialer application to a new environment** – in order to mitigate operational risk, among other things by increasing the redundancy level for the environment, which should significantly reduce the risk of loss of access to an application that generates measurable financial benefits for the Bank,
  - **launch a new marketing platform** to automate distribution of materials during advertising campaigns,
- **in the scope of adaptation of systems of the Bank to ensure their compliance with regulatory requirements:**
  - further adaptation of IT systems of the Bank to an enhanced scope of transaction monitoring within the framework of anti-money laundering activities,
  - adaptation of IT systems of the Bank to certain RTS-related requirements of the financial market regulations **(PSD2)** which will come into force in 2019,
- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - implementation of additional new-generation security solutions in banking systems,
  - migration of telephone systems to Cisco voice solutions together with the application of the "Softphone first" principle,
  - continued upgrading of the information and communication infrastructure in various locations of the Bank in accordance with the needs of the Business and in order to optimize costs and mitigate EoVS risks.

8. Equity investments

The investments of the Bank are divided between the portfolio of strategic companies and the portfolio of companies held for sale. In 2018, the Bank continued the investment policy it had decided to adopt earlier. Its objectives for the strategic companies portfolio were: to maximize profits in the long run, to increase market shares, to develop cooperation with the Bank and to expand the product range of the Bank; and for the portfolio of companies held for sale: to optimize the financial result of capital transactions and to minimize the risk in the areas arising from those transactions.

8.1 Strategic portfolio

Strategic portfolio includes entities which conduct their activities in the financial sector and through which the Bank enlarges its product offer, raises prestige and fosters its competitive position on the Polish financial services market.

Strategic portfolio also includes infrastructural companies which operate for the financial sector. The Bank holds non-controlling interest in such companies but they are of strategic importance for the Bank given their operations and collaboration with the Bank.

For its strategic investments in the so-called infrastructural companies, the Bank is going to retain its share and to participate proactively in decision making to determine strategic directions of their development to the extent of the options the Bank may pursue with the voting rights it holds. As its overriding goal when exercising corporate oversight over those companies, the Bank has chosen to support their growth insofar as the continuation of their current operations utilized by financial market participants, including the Bank, is not put in jeopardy. Simultaneously, in order to ensure that the Bank's proposal is innovative and comprehensive and that it meets diverse product needs and expectations of clients, the Bank may consider an expansion of its strategic companies portfolio by those which will complement its own proposal and make it more attractive, while ensuring that all offered services are safe. To this end, the Bank may opt for an acquisition, create a new company or use a special purpose investment vehicle it already has in its portfolio.

8.2 Divestment portfolio

Companies held for sale are entities in which the Bank's involvement is not of strategic nature. They include both companies held by the Bank directly and indirectly as well as special purpose investment vehicles. Some of the companies held for sale are restructuring commitments taken over by the Bank as a result of debt-to-equity conversion.

Strategic assumptions of the Bank regarding companies held for sale provide for gradual reduction of the Group's exposure in these companies. It is assumed that the individual entities shall be sold at the most favorable moment, determined on the basis of market conditions. The held-for-sale portfolio covers investments without a pre-determined rate of return. The Bank does not plan any new investments that would be held for sale in the future. The portfolio of companies which are held for sale may be enlarged by adding new companies taken over in the course of debt-to-equity conversions or as a result of takeover/enforcement of a pledge established on shares during the lending process or other processes aimed at securing or enforcing receivables of the Bank, and by investments which the Bank may take over in the course of its operations. Investment resulting from restructuring activities will be sold in accordance with the restructuring plan created individually for each company.

Special purpose investment vehicles companies

As at 31 December 2018, the Group included two investment special purpose vehicles. Their activities were financed with reverse capital contributions of the shareholder and with their profits.

As the Bank continues its strategy which assumes that its activities carried out via special purpose vehicles should be trimmed down, it is expected that its special purpose vehicles will be gradually sold or liquidated.

According to information available as the date of preparation of the (preliminary and unaudited) financial statements, the key financials of those companies as at 31 December 2018 were as follows:

Entity	Headquarter	Authorized capital/votes in GM held by the Bank	Balance sheet	Equity	Net financial profit/loss for 2018
		%	PLN '000	PLN '000	PLN '000
Handlowy - Inwestycje Sp. z o.o.	Warsaw	100	10,856	10,813	(22)
Handlowy Investments S.A.*	Luxembourg	100	18,445	18,137	(305)

* *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.*

VII. Significant risks related to the activities of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Significant risks and threats related to the Group's operating environment

1.1 Regulatory and legal risks

In 2018, the financial and organizational situation of the Group was affected, among other things, by:

Legal acts / regulations	Effective date and summary of new requirements
The EBA's guidelines concerning remuneration policies and practices related to the provision and sale of consumer banking products and services.	• Date: January 2018 • The EBA's guidelines concerning remuneration policies and practices related to the provision and sale of consumer banking products and services set out the requirements relating to preparation and implementation of remuneration policies and practices connected with offering or distributing banking products and services to consumers. Their aim is to protect the consumers against undesired negative effects of remunerating staff involved in selling activities.
WIBID and WIBOR Reference Rate Documentation of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)	• Date: February 2018 • This documentation is to ensure compliance with the requirements of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014.
Recommendation H concerning internal control systems of banks	• Date: December 2017 • The Recommendation H implemented treatment of internal control system as part of a three line of defense model, coupled with assigned respective control mechanisms and the independent monitoring of such mechanisms for their observance by all units which act as such defense lines. It also hinged the internal control system on the concept of the set of control mechanisms which ensure the delivery of the statutory objectives.
Act of 24 November 2017 amending certain acts to prevent the financial sector from being used for tax frauds	• Date: 13 January 2018 • This regulation is to combat tax frauds, especially those relating to fraudulent VAT refunds. Banks are now obliged to provide the settlement chamber with certain data relating to clients and their transactions in order to determine risk indicators. The settlement chamber will pass those risk indicators to the Director of the National Tax Administration and to banks. The Act has established a system for exchange of information between banks and the tax administration. The tax administration will be using information provided by banks to carry out financial analyses to identify flows that are typical of tax frauds. If it is suspected that an account is used for tax frauds, the National Tax Administration may freeze client accounts for 3 days, with an option to extend its decision for up to 3 months.
The Act of 10 May 2018 amending the Payment Services Act and certain other acts	• Date: 20 June 2018 • This act implements into the Polish legal system Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, which is to create a single market of payment services in the EU based on safe and innovative payment services. The Act provided for a 6-month period (expired on 20 December 2018) for providers of payment services to ensure compliance with the amended regulations. • The most important changes include: - addition of a new category of providers - the list of payment services has been enlarged by two new types of services: payment initiation service ("PIS") and account information service ("AIS"), - implementation of strong authentication, - modification of responsibility for an unauthorized transaction, • introduction of the category of small payment institutions.

Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) - ("GDPR")	• Date: 25 May 2018 • This regulation is binding on all entities which carry out the processing of personal data in connection with their business activities. The regulation introduces numerous changes and significantly enhances the responsibilities of personal data controllers and processors. The new provisions are also to equip natural persons and supervisory authorities with effective tools of responding to infringements of the Regulation. The most important changes include: - New and enhanced rights of data owners: "right to be forgotten" (for persons who want their personal data to be deleted), the right to data portability and a strengthened right of a citizen to access and view their data. Data subjects will also have a stronger right to object to processing of their personal data. - Certain limitations have been introduced with respect to profiling, including an obligation to obtain consent to profiling before the collection of personal data is started, a strict obligation to inform data subjects about profiling and the necessity to accept the lack of consent to profiling. - The GDPR implements new or supplemented rules under which consent to the processing of personal data is to be obtained from data subjects. The GDPR also determines numerous types of information which must be taken into account when communicating the method of personal data processing to data subjects. • Data controllers must notify the competent supervisory authority, within 72 hours of detection, of breaches which may pose a risk to rights and freedoms of persons whose data have been breached.
The Act of 15 December 2017 Amending the Goods and Services Tax Act and Certain Acts	• Date: 01 July 2018 • The split payment act introduces a split payment mechanism, which means that a taxpayer who has received an invoice which shows the amount of tax may use the split payment mechanism when paying the amount due under that invoice. The split payment mechanism is used as follows: - The full amount of tax from the received invoice or its part is paid to the VAT account; - The full amount of net sales (ex VAT) resulting from the received invoice or its part is paid to the bank account or the account at a savings and credit union for which the VAT account is kept, or is settled in a different manner. • The taxpayer's options to manage the funds on the VAT account are limited. The funds on that account may be used by the client to pay VAT to its suppliers, however only to a VAT account, or to pay its VAT liabilities to tax authorities. This solution is to help combat VAT frauds. • Under that Act banks are obliged to open one charge-free VAT account for each client. The solution assumes a change in technology in the interbank settlement system and may affect the way some products are delivered. The regulation does not apply to retail clients.
Act on Anti-Money Laundering and Combating the Financing of Terrorism of 1 March 2018	• Date: 13 July 2018 • This Act implements the Fourth AML Directive into the Polish legal system. The main changes cover the principles of GIIF reporting, a broader scope of client and beneficial owner data, a broader definition of the client and significantly extended obligations of the bank.
Regulation No. 1286/2014/EU of the European Parliament and of the Council of 26 November 2014 on key information documents for retail collective investment products and insurance investment products - (PRIIPs)	• Date: 01 January 2018 • The regulation imposes various new obligations on entities which create and sell PRIIPs, first of all with respect to the scope of presentation of certain information to investors. This is to improve the protection of individual investors which buy such products.
Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014	• Date: 01 January 2018 • This regulation implements, among other things, a common framework which is to ensure accuracy and integrity of indices used in the EU as benchmarks in financial instruments and financial contracts, as well as the protection of consumers and investors. • The regulation also applies to entities which provide benchmarks or input data for a benchmark and to supervised entities which use benchmarks in financial contracts and financial instruments.
Directive 2014/65/EU of the European Parliament and of the Council of15 May 2014 ("MIFID II"), Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 ("MIFIR") and other EU regulations and the related amendment to the Act of 29 July 2005 on trading in financial instruments and certain other laws and secondary regulations	• Date: 3 January 2018 (EU regulations) and 21 October 2018 (local regulations) • The primary objective of MIFID II and MIFIR is to strengthen the protection of clients which use investment services and to increase the transparency of functioning of financial markets, and • To ensure an increase in the competitiveness and efficiency of financial markets in Poland and the European Union.
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 executive regulations to the above regulation issued by the European Commission ("EMIR")	• The implementation of EMIR has been progressing in stages since 2012. In 2018, subsequent stages of implementation in connection with EMIR were carried out, in particular those related to the widening of the group of entities obliged to use initial margins for derivative transactions. • EMIR imposes on undertakings which are financial and non-financial counterparties, as defined in the Regulation, numerous obligations connected with the conclusion of derivative transactions, and in particular transactions concluded on the OTC market (e.g. obligations to report derivative transactions, to have derivative transactions settled by a central counterparty (CCP), to confirm transactions, to reconcile, and to secure exposures arising from transactions).
The Act of 15 December 2017 on insurance distribution	• Date: 01 October 2018 • The Act sets out new regulations arising from the need to implement Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 into the Polish legal system. • The Act lays down the principles of execution of activities to distribute personal and property insurance products and to distribute reinsurance products.
The Act of 30 November 2016 amending the payment services act and certain other acts, implementing Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features („PAD")	• Date: 08 August 2018 • The most important changes included: - access to the main account, i.e. the need to ensure that consumers have access to a charge-free main payment accounts and to basis payments services connected with that account, - statutory principles applicable to transfers of payments accounts, - disclosure obligations related to fees.

In 2019, the financial and organizational situation of the Group will be affected, among other things, by:

Legal acts / regulations	Effective date and summary of new requirements
Recommendation S on good practices for management of credit exposures secured with mortgages	• Date: 2019 • The draft of amended Recommendation S provides, among other things, for an obligation to add to product ranges of banks fixed-rate loans with an option to convert a variable-rate loan to a fixed-rate loan. In addition, the amended Recommendation S implements provisions related to loans with an option under which a liability to a bank arising from a credit exposure secured with a mortgage on a residential property may be waived if the borrower assigns to the bank the ownership titles to the property financed with that loan, which is called the "key for debt" option. The draft also includes a possibility to consecutively inform client groups of the possibility to convert the loan if the bank foresees that it will not be able to process all the expected applications.
Recommendation L on the role of statutory auditors in the process of supervision over banks	• Date: March 2019 • Changes include a new model of cooperation between auditors and the supervisory authority and changes in the process of selection of auditors and audit firms by banks. Recommendation effective date: 31 March 2019.
Recommendation Z on internal governance at banks EBA and ESMA's guidelines on suitability assessment for management body members and key function holders EBA guidelines on internal governance	• Date: 2019. • Recommendation Z will provide a set of good practices in the area of internal governance. In particular, the document will refer to such issues as general principles of internal governance at a bank, organizational structure, roles and responsibilities, the composition and functioning of the supervisory board, the management board, and senior management, a bank's code of conduct (ethics) and conflict of interests, rules of remuneration at a bank, risk management and internal controls, information systems and communication, the introduction of new products at a bank, a dividend policy, an outsourcing policy, business continuity and the transparency and integrity of management system at a bank. Recommendation Z is being prepared taking into account guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA).
EBA's Guidelines on the Management of Interest Rate Risk Arising from Non-trading Activities	• Date: June 2019 • The EBA published the Guidelines on the Management of Interest Rate Risk Arising from Non-trading Activities with a view to defining supervisory expectations as to such risk. The Guidelines were prepared on the basis of their earlier release of 22 May 2015 and take into consideration supervisory expectations and practices, including standards concerning the interest rate risk in the banking book published by the Basel Committee in April 2016 (BCBS standards). The revised guidelines contain specifically requirements concerning the definition of strategies for IRRBB risk, including risk appetite and manners of risk mitigation, the definition of IRRBB management framework (the definition of policies, processes and controls) and the delegation of responsibility in this regard, the performance of proper assessment of new products and activities for the needs of IRRBB. These guidelines are both the first milestone and a bridge to the implementation of the IRRBB requirements reflected in CRD V / CRR II, the banking reforms package commenced in November 2016.
EBA guidelines on fraud reporting under PSD2	• Date: January 2019 Under the guidelines, providers of payment services in 28 Member States must collect and report data relating to payment transactions and fraudulent payment transactions by using a consistent methodology, definitions and data categories. The guidelines are to ensure a uniform reporting of transaction data in accordance with the requirements of the second Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market.
Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication	• Date: 14 September 2019 • This regulation sets out the requirements that must be met by providers of payment services in order to implement security measures which enable them, among other things, to use a strong customer authentication procedure and associated security measures and also to determine common and secure open standards of communication between account servicing payment service providers, payment initiation service providers, account information service providers, payers, payees and other payment service providers in relation to the provision and use of payment services.
The Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Code and certain other acts	• Date: 01 January 2019 • The Act implements new regulations arising from the need to implement in the Polish legal system the provisions of Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements. • Obligation to report tax schemes to the Director of the National Tax Administration. • Quick access of the tax administration to information on potentially aggressive planning or abuses connected with tax planning as well as on promoters and users of tax schemes. • Discouraging the preparation and use by taxpayer and their advisers of arrangements which may represent tax avoidance. • Identification of gaps in tax regulations and improvement of the quality of the tax system.
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 executive regulations to the above regulation issued by the European Commission ("EMIR")	• The implementation of EMIR has been progressing in stages since 2012. In 2019, subsequent stages of implementation in connection with EMIR will be carried out, in particular those related to the widening of the group of entities obliged to use initial margins for derivative transactions. • EMIR imposes on undertakings which are financial and non-financial counterparties, as defined in the Regulation, numerous obligations connected with the conclusion of derivative transactions, and in particular transactions concluded on the OTC market (e.g. obligations to report derivative transactions, to have derivative transactions settled by a central counterparty (CCP), to confirm transactions, to reconcile, and to secure exposures arising from transactions).

The Act of 9 November 2018 amending certain acts in connection with the strengthening of supervision over the financial market and of the protection of investor in that market	• Date: 01 January 2019 • Strengthening the protection of investors in the capital market. • Introducing the mandatory dematerialisation of certain financial instruments (including bonds and covered bonds). • Implementing the role of issue agent, which may be performed exclusively by investment firms or custodian banks. The obligations of the issue agent will include verification whether the issuer of financial instruments meets the relevant legal requirements. • Giving the President of the Office of Competition and Consumer Protection a right to fine persons responsible for adding the so-called abusive clauses to contracts with customers. • Extending, to 12 months, the period during which the Polish Financial Supervision Authority may audit supervised institutions (previously: 6 months). - Giving the Polish Financial Supervision Authority a right to order a bank to take over another bank whose capital has fallen below the applicable legal thresholds.
The draft Act amending the Act on Public Offering and Terms of Introduction of Financial Instruments to an organized Trading System and on Public Companies and some other acts	• Date: 21 July 2019 • This draft is, among other things, to implement certain provisions of Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement and to ensure compliance with Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC. • Implementing the shareholders register, maintained by the KDPW, to which investment firms and custodian banks will submit information on shareholders of companies. Data in the register are to be updated at least after a transfer of shares recorded on a securities account. • Enhancing shareholders' rights by a right to vote on the remuneration policy of the company and on periodic reports on the performance of that policy. • Authorizing the Polish Financial Supervision Authority to fine investment companies and custodian banks for a breach of their obligations related to the maintenance of the shareholders register. • Implementing changes related to public offerings, including a limit for private offerings by setting out that such offering may only be addressed to not more than 149 persons in a year.
Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014	• This regulation implements, among other things, a common framework which is to ensure accuracy and integrity of indices used in the EU as benchmarks in financial instruments and financial contracts, as well as the protection of consumers and investors. • The regulation also applies to entities which provide benchmarks or input data for a benchmark and to supervised entities which use benchmarks in financial contracts and financial instruments.
Directive 2014/65/EU of the European Parliament and of the Council of15 May 2014 ("MIFID II"), Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 ("MIFIR") and other EU regulations and the related Act of 1 March 2018 amending the Act of 29 July 2005 on trading in financial instruments and certain other acts	• The primary objective of MIFID II, MIFIR and the national regulations adopted to implement them is to strengthen the protection of clients which use investment services and to increase the transparency of functioning of financial markets, and • To ensure an increase in the competitiveness and efficiency of financial markets in Poland and the European Union.
Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) - ("GDPR"), the draft Act amending certain Acts in connection with the assurance of application of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) - ("GDPR")	• The regulation has introduced numerous changes and significantly enhanced the responsibilities of personal data controllers and processors. • The most important changes included: - New and enhanced rights of data owners: "right to be forgotten" (for persons who want their personal data to be deleted), the right to data portability and a strengthened right of a citizen to access and view their data. Data subjects will also have a stronger right to object to processing of their personal data. - Certain limitations have been introduced with respect to profiling, including an obligation to obtain consent to profiling before the collection of personal data is started, an obligation to inform data subjects about profiling and the necessity to accept the lack of consent to profiling. - New or supplemented rules under which consent to the processing of personal data is to be obtained from data subjects. The GDPR also determines numerous types of information which must be taken into account when communicating the method of personal data processing to data subjects. - Data controllers will have to notify the competent supervisory authority, within 72 hours of detection, of breaches which may pose a risk to rights and freedoms of persons whose data have been breached and in certain cases also to inform those persons of such breaches. • In addition, a draft Act which is to support the application of the GDPR is currently in the legislative pipeline. Depending on its final shape, it may affect the activities of the Bank, for instance with respect to data processed for the purposes of assessment of creditworthiness of natural persons.

2. Significant risks and threats related to the Group and its activity

2.1 Risk management principles

The Group carries out risk management by implementing cohesive rules, controls and tools through the Group, taking into account supervisory requirements and best market practices.

The risk management system used in the Group, which is based on the shared responsibility concept, is arranged on three independent levels ("three lines of defense"):

- Level 1, i.e. organizational units responsible for the activity which results in taking risks and responsible for risk management in the Bank's operational activity, as well as for risk identification and reporting to the second-line units,
- Level 2, i.e. risk management at organizational units, regardless of the first-line risk management, and the activity of the compliance unit – units or persons responsible for setting risk management standards in identifying, measuring or assessing, limiting, controlling, monitoring and reporting and for supervising control mechanisms applied by other organizational units of the Bank to mitigate risk – organizational units of the Risk Management Sector, Compliance Department, Finance Management Sector, Legal Division, Human Resources Division;
- Level 3, i.e. Internal Audit units which ensure independent assessment of both risk management processes and internal control system.

When organizing its risk management processes, the Group takes into account its risk profile, strategic and business objectives, available capital and liquidity resources, macroeconomic environment and regulatory requirements – these factors make up the framework of the risk control and management system.

Risk management processes are implemented on the basis of documented policies and rules relating to identification, measurement, mitigation, control, monitoring and reporting of risks to which the Group is exposed, approved by the Management Board, authorized persons in accordance with the rules of issuance of legislative acts at the Bank or duly established Committees, including:

- Asset and Liability Committee (ALCO);
- Risk and Capital Management Committee, which includes the Models Commission and the Consumer Bank Risk Commission;
- New Products Committee.

The risks connected with activities of the Group are mitigated by a system of limits arising from risk appetite and the management information system used by the Bank enables it to monitor risk levels by providing management with portfolio information on a regular basis.

The Group carries out the management of all significant risk families arising from the execution of its business strategy. As part of the process initiated in 2018 to identify key risk families, the Management Board of the Bank concluded that the following risk families were significant for the purposes of risk management and the internal capital estimation and maintenance process:

- Credit risk;
- Counterparty credit risk;
- Market risk for the trading book;
- Interest rate risk for the banking book;
- Liquidity risk;
- Operational risk;
- Compliance risk;
- Information security risk (including cybersecurity risk);
- Outsourcing risk;
- Model risk.

Liquidity risk	
Definition	• Liquidity risk is the risk of inability to perform financial liabilities to a client, lender or investor by their due dates as a result of mismatch between financial flows.
Risk management strategy	• The overriding goal of liquidity risk management is to ensure that the Bank and other companies from the Group have access to liquid funds sufficient to meet their financial liabilities when due (also in the event of probable extreme crisis situations). • Liquidity risk management is based on: – applicable laws and regulations, in particular the Banking Act; – requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority (KNF); – principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank; – taking into account best practices applied in the market. • The Group analyses and manages liquidity risk in different time horizons and, to this end, distinguishes between current, short term, medium term and long term liquidity and applies adequate risk measurement and limitation methods. The adopted measures and limits are to limit excessive concentrations with respect to the assumed structure of the balance sheet or sources of funding. • The management of long-term liquidity is a task of Assets & Liabilities Committee (ALCO) and is covered by the strategy of the Bank. It is carried out on the basis of monitoring of structural relations of the balance sheet and on the basis of regulatory long-term liquidity measures, and covers the liquidity gap analysis and the possibilities of obtaining sufficient financing sources in the future, as well as the analysis of funding costs in the context of the impact on the profitability of business operations. • The management of medium-term liquidity, within the 1-year time horizon, is a task of Assets & Liabilities Committee and is carried out on the basis of annual financing plans, which determine the levels of internal limits, plans prepared by business units of the Bank concerning changes in assets and liabilities, elaborated within the framework of financial plans for the next budget year. • The management of short-term liquidity, within the 3-month time horizon, is a task of the Financial Markets Sector and Corporate Banking Sector, and is carried out on the basis of both regulatory measures of short-term liquidity and internal limits. The Bank also analyses the liquidity level in emergency situations, assuming, as a must, that there will be no negative gap in all time brackets in a 12-month time horizon. • Current liquidity management is a task of the Financial Markets and Corporate Banking Sector and is carried out on the basis of nostro accounts of the Bank, including in particular the mandatory reserve account with the National Bank of Poland, using available products offered by the money market and the central bank.

Risk measurement	• Liquidity risk measurement is carried out by using external supervisory measures (M3-M4, LCR/NSFR and additional liquidity monitoring indicators – ALMM) and additional measures and tools developed internally: – gap analysis - MAR/S2 – crisis/stress scenarios, – structural liquidity ratios, – market warning signals, – significant sources of financing, – emergency financing plan, – intra-day liquidity management process, – short-term liquidity gap – M1, – short-term liquidity ratio – M2.
Monitoring	• Liquidity risk monitoring and management are carried out using: supervisory liquidity risk limits determined by the Office of the Polish Financial Supervision Authority and internal prudential limits and thresholds determined for liquidity risk by the Asset and Liability Committee (ALCO): – limits for the S2 Report – for pre-determined currencies and time ranges; – warning thresholds for structural liquidity ratios; – warning threshold for tests of stress scenarios. • On a regular basis, the Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers with reports on the liquidity position, stress test results for liquidity risk and allocation of capital requirements relating to liquidity risk. • In addition, liquidity risk analyses are presented systematically to the following committees: the Asset and Liability Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

Market risk	
Definition	• Market risk is the risk that the financial result and equity of the Bank may be adversely affected by a change in: – market interest rates; – currency rates; – stock prices; – commodity prices; and – any parameters of volatility of such rates and prices.
Risk management strategy	• Market risk management is to ensure that the amount of risk accepted in the Group is consistent with the level acceptable for the shareholders and banking supervision authorities and to ensure that all market risk exposures are adequately reflected in calculated risk measures notified to relevant managers and governing bodies. • Adopted market risk measures and limits should prevent excessive concentrations of exposures to a single risk factor or a group of related risk factors and should enable determination of the maximum level of the risk accepted in the trading book or the banking book. • Market risk management at the Bank is based on: the requirements of Polish regulatory institutions, and especially resolutions of the Polish Financial Supervision Authority (KNF); and the principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market. • Market risk management covers all portfolios that generate incomes which are exposed to an adverse impact of market factors, such as interest rates, currency rates, stock prices, commodity prices and parameters of volatility of those factors. In market risk management, two portfolio types are distinguished: trading portfolios and banking portfolios. • Trading portfolios include transactions in financial instruments (on- and off-balance sheet ones) the purpose of which is to earn income connected with a change of market parameters in a short period. Trading portfolios cover on-balance sheet items, such as debt securities, categorized as held for trading, i.e. purchased for trading purposes and meeting specified liquidity criteria, and any positions in derivative instruments, provided that in this case portfolios are divided into those acquired for purely trading purposes and those created as hedging against the risk of positions included in a banking portfolio (so-called economic hedge). Valuation of trading portfolios is carried out either directly on the basis of market prices or by using valuation models that make use of price parameters quoted in the market. Activities on trading portfolios are carried out by the Interbank Transaction Division in the Financial Markets and Corporate Banking Sector for those portfolios which cover interest rate risk and currency risk. Trading portfolios also include options, including currency option transactions, interest rate options and option structures, which reflect the economic nature and risk arising from products offered to clients of the Bank. The operations of the Bank in that area are carried out so that they ensure the simultaneous (each time and immediate) conclusion of a counter transaction having the same parameters, as a result of which the option transaction portfolio generates no open market risk exposure. The only factor connected with the conclusion of option transactions which is taken into account in measurement of market risk, and specifically currency risk, is the amount of the premium paid/received in the foreign currency.

Risk measurement	• The following risk measurement methods are applied to trading portfolios: factor sensitivity (DV01) method, value at risk (VaR) method and stress tests. • Sensitivity factors measure the change in the value of the position in a given underlying instrument in the case of a specified change of the market risk factor (for example a change of the interest rate in a given point on the interest rate curve by 1 basis point or a change of the currency rate or stock price by 1%). – For interest rates, the sensitivity measure is DV01; – For currency risk the sensitivity factor is equal in value to the position in a given currency; – For positions in equity securities, the sensitivity factor is equal in value to the net position in a given instrument (stocks, index, participation unit). • The integrated measure of market risk for trading portfolios, which combines the impact of the positions in particular risk factors and takes into account the correlation effect between volatilities of individual factors, is value at risk (VaR). VaR is used to estimate the potential decline in value of a position or portfolio in normal market conditions, for a fixed confidence level and in a specified period. For positions opened in a trading portfolio of the Bank, VaR is calculated using the 99% confidence level and one-day holding period. • Both DV01 and VaR for a trading portfolio are calculated as net amounts without any economic hedging of the portfolio of securities available for sale, i.e. excluding any derivative instruments which are to secure the fair value of the portfolio. The risk exposure of such transaction is controlled by using appropriate risk measurement methods and mitigated with risk limits adopted for banking portfolios. • On a daily basis, the analysis of stress test scenarios is carried out, while assuming risk factor changes higher than those adopted for VaR measurement and ignoring any observed historical correlations between those factors. • The Bank has market risk exposures of trading portfolios in more than twenty currencies, both for currency positions and exposures to interest rate risk, but only exposures to a few currencies are significant. For a large group of currencies, exposures arise from the imperfect match of the transactions concluded upon the client's order and the counter transactions with other counterparties from wholesale markets. Significant exposures to market risk are opened for PLN, developed market currencies (mainly USD and EUR and less frequently GBP, CHF or JPY) and even currencies from Central European countries.
Monitoring	• The Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers, on a regular basis, with reports on portfolio sensitivity, value at risk (VAR), securities positions, stress test results for market risk, allocation of capital requirements relating to market risk and utilization of Trading MAT and Trading Stop Loss limits (warning thresholds). • In addition, market risk analyses are presented systematically to the following committees: the Asset and Liability Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

Interest rate risk for the banking book	
Definition	• Interest rate risk for the banking book is the risk of an adverse impact of interest rate changes on the interest income and capital of the Group. • Interest rate risk may occur if assets and liabilities (including capital and derivative instruments that meet the requirements of hedge accounting) have different maturity dates or if their interest rates change on different dates or their interest rates are connected with different interest rate curves (basis risk), or if they include options.
Risk management strategy	• Interest rate risk management is to minimize the risk connected with the possibility of occurrence of adverse changes in market interest rates and with a negative impact of those changes on the net interest rate and, subsequently, financial result of the Group. • Market risk management at the Bank is based on: the requirements of Polish and European regulatory institutions, and especially resolutions of the Polish Financial Supervision Authority (KNF) and the EBA; and the principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market. • Interest rate risk management is carried out both at strategic and operational level. Division into particular risk management levels depends on the nature and type of decisions made by particular decision-making fora at the Bank which affect the profile and level of interest rate risk. – The strategic risk management perspective is covered by the decision-making powers of the Asset and Liability Committee (ALCO) of the Bank. ALCO carries out interest rate management by setting risk limits for banking portfolios and by conducting monthly reviews of exposures and results of management of those portfolios. – The operational management of interest rate risk is carried out by the Asset and Liability Management Department, which is authorized to open risk positions within the framework of adopted limits.

Risk measurement	• The following risk measurement methods apply to banking portfolios: interest rate gap analysis, method based on costs of closure of open interest positions (Value-at-Close) / total return on portfolio (Total Return), method based on interest income exposed to risk (Interest Rate Exposure, IRE) and stress tests. • The interest rate gap analysis uses the schedule of maturity or revaluation of on-balance sheet positions and derivatives recognized using hedge accounting or categorized as economic hedge in order to determine differences between positions whose maturity date or interest rate update date is in the subject time interval. • As a general rule applied in the interest rate gap analysis, transactions are allocated to particular bands of revaluation of positions in banking portfolios on the basis of contractual or assumed dates of change of transaction interest rates. • The Value-at-Close method determines the economic or "fair" value of positions, corresponding to market valuation of a trading portfolio. Total return on a portfolio is the sum of changes of value-at-close, accrued interest and gains/losses on sale of assets or cancellation of liabilities. • The Interest Rate Exposure (IRE) method is used for measurement of the potential impact of a pre-determined parallel shift of interest rate yields on pre-tax interest income on the banking book which may be earned in a specified time interval. This is a prospective measure. In addition, it is assumed that in standard conditions interest rate moves are identical for each currency and equal to 100 basis points up. The IRE measure is calculated separately for the position in each currency over a 10-year time horizon, provided, however, that 1-year and 5-year IRE measures are mainly used for the purposes of day-to-day monitoring and limitation of interest rate risk positions for banking portfolios. • Stress tests measure a potential impact of significant changes in the level or shape of interest rate yields on the positions opened in a banking portfolio. • The Bank carries out stress tests for pre-defined scenarios of movements of interest rates, which are combinations of moves of market factors, both defined as significant changes (large move) and crisis changes (stress move), which occur both in Poland and abroad. The extent of assumed shifts of market factors are reviewed at least annually and adjusted as appropriate to changes in the market conditions in which the Bank operates. • The Asset and Liability Management Department in the Interbank Transaction Division carries out activities relating to securities available for sale. Three key objectives have been adopted for activities relating to the portfolio of securities available for sale: carrying out financial liquidity management, hedging against the risk taken over by the Interbank Transaction Division from other organizational units of the Bank and opening own interest rate risk positions in portfolios of the Bank by the Interbank Transaction Division. • In order to avoid excessive fluctuations of capital funds of the Bank, caused by revaluation of assets held for sale, maximum limits are set for the DV01 (Dollar Value of 1 basis point) position, which determines the potential change in the value of risk position for a given interest rate curve on a specified nodal point (to which all cash flows in a given period are brought) caused by a shift of the market interest rate by 1 basis point up for such portfolios. Limits also cover open derivative instrument positions (for example interest rate swaps) established to hedge the fair value of a portfolio.
Monitoring	• The Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers with reports on portfolio sensitivity, securities positions, stress test results for interest rate risk of the banking book. • In addition, market risk analyses are presented systematically to the following committees: the Asset and Liability Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

Credit risk and counterparty risk	
Definition	• Risk of a client's failure to perform their liabilities. • Risk of the counterparty's failure to perform their liabilities arising from a transaction, before or on the date of its final settlement.
Risk management strategy	• The primary objective of credit risk management is to support the long-term plan of stable growth of the credit portfolio, while maintaining appropriate quality. The credit process is based on a number of fundamental principles, such as: - Business and independent risk management units share responsibility for quality of the credit portfolio and credit process and for any credit losses; - Conduct must be in compliance with the guidelines on the portfolio structure to ensure its diversification and to keep balance between risk and capital; - A system of credit-related authorizations must be implemented which assumes that special authorization to make credit decisions may only be granted to properly trained and experienced employees of risk management units, taking into account their track record and risk assessment skills and abilities; - Acceptance level must depend on assumed risk - higher-risk exposures (defined taking into account both amount and level of risk) require higher-level approval; - Diversified and adequate risk assessment standards must be used for each borrower and each commitment, including as part of corrective actions; - A consistent rating process is required, which is based, inter alia, on results produced by rating or scoring models; - Periodic, regular monitoring of results of a client's activities and identification of adverse changes in their situation which require immediate activities to classify receivable or corrective actions are necessary; - External environment must be monitored to ensure early detection of economic threats which may adversely affect particular portfolios; - The credit policy rules must be complied with and, in special cases, approval of exceptions to the Credit Policy is required at higher organizational levels in order to ensure control of implementation of its principles in compliance with internal regulations applicable at the Bank, generally applicable laws and regulations and regulations issued by competent regulators.
Risk measurement	• Risk measurement is carried out using: rating models, scoring models and scorecards at the level of a client and provision models for portfolio risk assessment and an integrated ICAAP process, both at aggregate level and by business line.

Monitoring	• Credit risk exposures are monitored and managed at two levels: client level and portfolio level. Tools used to monitor the current creditworthiness of a borrower include: – annual comprehensive review of limits, exposures, financial situation of and cooperation with borrowers, – reports generated in the Early Warning process, – periodic financial reviews of borrowers, – periodic reviews of negatively classified credit exposures, – periodic visits to clients, – reports on ongoing contacts of employees of business units/bankers with clients, – analysis and assessment of external information (rating reports, analytical reports, press, sector sources, etc.), – internal classification system. • Portfolio-level monitoring – monitoring of utilization of risk concentration limits in the credit portfolio on the basis of appropriate reports, – regular periodic reviews of the credit portfolio, – "ad hoc" portfolio reviews due to sudden important external information, – monitoring of indicators determined for the retail exposure portfolio. • The monitoring of portfolio performance and the identification of trends in the portfolio are carried out using regular management information and control reports taking into account, inter alia, analysis of pace of changes in value and segmentation (sectors) of the credit portfolio, client risk (rating), quality of credit exposure collateral and exposures affected by non-performance, departures from applicable risk acceptance rules and limit utilization level. • The package of control reports for each portfolio is prepared on a regular basis and delivered to unit heads responsible for the client segment in question, the Risk and Capital Management Committee and the Management Board of the Bank.

Operational risk	
Definition	• Operational risk should be understood as a possibility of loss as a result of application of inappropriate or defective internal processes, human factors or technological systems, or as a result of external events. – Operational risk covers technology risk, outsourcing risk, fraud risk, money laundering risk, information security risk, external event (business continuity) risk, tax and accounting risk, product risk, legal risk, model risk, HR risk, concentration risk, conduct risk and reputational risk, connected with operational risk events, business and market practices, as well as operational risk embedded in other risks (for example credit, counterparty, liquidity or compliance risk); – Operational risk excludes strategic risk and the risk of potential losses resulting from decisions connected with taking credit, market, liquidity or insurance risks.
Risk management strategy	• Operational risk management is to ensure a consistent and effective approach to identification, assessment, mitigation, control, monitoring and reporting of that risk and effective reduction in exposure to operational risk and, in consequence, reduction in the number of operational risk events and the severity of their outcomes. – Operational risk management is also to ensure the full integration of processes used for the management of that risk with the processes used for decision making purposes. – When organizing the operational risk management process the Group takes into account the business strategy, risk profile of the Group, macroeconomic environment, available capital and liquidity resources and regulatory requirements, which make up the framework of preparation of the system used to control and manage operational risk at the Group.
Risk measurement	• In the risk assessment process, the Group uses combinations of various risk measurement or estimation methods. – Risk assessment is to determine the probability of occurrence and the amount of future losses attributable to operational risk. To this end both quantitative and qualitative indicators are used (such as risk appetite, capital requirements, target risk profile, KRIs, data about losses and operational risk events, control issues and corrective actions, self-assessment process, risk map, key projects, risk concentration areas and rising-risk areas, scenario analysis, stress tests, changes in processes and products, operational risk attestation, information from internal and external reviews and audits and information reported to Commissions and Committees). – Such assessment also includes an analysis of both internal and external threats. A correct assessment of operational risk enables the Group to properly determine and manage the risk profile.
Monitoring	• Ongoing operational risk monitoring is a responsibility of the Risk and Capital Management Committee and the Commissions which support it. – Quality of the operational risk management process (including the self-assessment process) in particular units of the Group is checked and assessed by the Internal Audit function. – As part of consolidated supervision, operational risk data relating to the Bank and subsidiaries are presented to Commissions and Committees that support the Management Board and Supervisory Board of the Bank in the operational risk management process. – The Supervisory Board oversees the operational risk management system and assesses its adequacy and effectiveness. The Supervisory Board is supported by its committees: Audit Committee, Risk and Capital Committee and Remuneration Committee. – On the basis of synthetic reports which present the scale and types of operational risk to which the Group is exposed, risk concentration areas, operational risk management methods, probability of occurrence of operational risk events, assessment of potential adverse impact of the operational risk management methods, results of operational risk profile monitoring and operational risk appetite, submitted by the Management Board at least semiannually, the Supervisory Board, supported by the Audit Committee and the Risk and Capital Committee, assesses the implementation of the assumptions of the strategy by the Management Board (including with respect to the operational risk management principles) and may order a review of the strategy if it deems it necessary.

VIII. The Bank's community initiatives and cultural sponsorship

The full-scope information on the implementation by the Bank of the corporate social responsibility principles, including all statutory non-financial disclosures, is presented in the Non-Financial Statements of Bank Handlowy w Warszawie S.A. and Bank Handlowy w Warszawie S.A. Group of Companies for the financial year ended 31 December 2018. The statements were prepared on the basis of the requirements set out in the Accounting Act of 29 September 1994 (i.e. J.L. of 2018 item 395), which imposes the reporting obligation.

1. Corporate Social Responsibility (CSR)

The Bank is socially responsible for and sensitive to the needs of both its business and social partners. All Bank's actions are undertaken following the needs of its customers, but also the community in which it operates.

Bank's activities with regard to Corporate Social Responsibility (CSR) cover work place and market environment and local community as well as environmental protection. The strategic objective is to become a company setting Corporate Social Responsibility (CSR) standards, both outside and inside the organization. The Bank carries on investments supporting local communities implemented for public good in such fields as financial education, promotion of entrepreneurship, local development and protection of cultural heritage. The Bank's mission in this scope has been implemented through the Kronenberg Foundation at Citi Handlowy established in 1996. Public recognition for the social commitment of the Bank is confirmed by various independent rankings, such as the Respect Index or the Socially Responsible Companies Ranking. In addition, in 2018 the Bank was awarded a "Super Ethical Company" title in the contest organized by the Puls Biznesu newspaper in cooperation with PwC. This award is granted to companies which have already been awarded the "Ethical Company" title at least three times in three consecutive editions of the contest. In order to receive this award, a company has to meet the highest standards in the area of corporate governance, reputation and leadership, fraud risk management, irregularity reporting system, report verification methods, etc.

1.1 Client relationships – market practice

The establishment of client relations based on trust and a shared vision of growth is the Bank's mission and the biggest ambition. A strategic goal is to attain such level of client satisfaction, which will naturally translate into unwavering loyalty to the Bank. Therefore a range of activities is taken, on the basis of surveys and feedback from clients, which are to enhance and elevate the quality of our customer service standards and product offer on an ongoing basis. Following changing clients' expectations, one of such activities is the adaptation of brick- and-mortar customer services to new technologies. At present, over 95% of bank transactions are concluded individually via Citibank Online. The network of modern Smart Banking Ecosystem allows the client to conclude individually financial transactions, pay in/withdraw cash from fx ATMs, obtain a credit card and on an interactive screen learn about special rebates for holders of Citi Handlowy cards.

Client satisfaction surveys

The Bank conducts regular customer satisfaction surveys among both institutional and retail clients. NPS (Net Promoter Score) is the key measure of quality. NPS measures clients' propensity to recommend the Bank and thus their satisfaction regarding provided services. Surveys cover the Bank's key client segments as well as the most important channels of communication (i.e. Citibank Online, Citiphone, branches). Scores and comments are analyzed by a team which analyzes clients' experience and results of such analyses and proposed enhancements are discussed at a monthly meeting with the Bank's management. Thanks to its disciplined approach, the Bank received excellent marks in 2018 in each of the key NPS indicators and, in particular, the Bank retained its leading position in the credit card segment.

The Bank's sound position in providing customized solutions for clients was confirmed by many awards and recognitions won in 2018. One of them is the award granted in the 9th edition of the ranking prepared by Bankier.pl and Puls Biznesu for the Citi Simplicity credit card, which won the Golden Banker award for the third time in a row in the product category: "best credit card". Citi Handlowy also won an award for the Cash Loan as the best product in terms of price parameters of product functionality depending on the client's profile. Other awards were granted, among others, by Euromoney (UK financial magazine) for the best private banking proposal and by the SAR Marketing Communication Association for an innovative sales strategy conceived for credit cards.

The Bank promotes the idea of high level of customer satisfaction not only through NPS tests. In 2018 we systematized the approach to searching, recording and changing the customer experience in relations with the Bank. Selected units not only analyze the Clients' complaints, but also search for the information on customer experience in the NPS forms, comments posted in the social media or among the employees of the Bank who are also its Clients. The initiative engages the senior management of the Bank that regularly contacts Customers via telephone and in person to discuss their experiences with Citi Handlowy and subsequently improve our processes and procedures, and continuously improve the Customer satisfaction. The growth of Customer satisfaction level is among the Bank's key goals for 2019.

Communication with clients

For more than six years the Bank has consistently pursued its transparent client communication strategy, systematically aligning its offer with the clients' needs. As part of such projects as „Treating Customers Fairly" requirements were defined regarding communication, which were necessary for conducting product campaigns. Given the above, despite of dynamically changing market conditions, clients are assured that they will be informed of the Bank's products in a fair and transparent manner. At the same time, the Bank ensures that its agreements are explicit and its information concerning costs, risks and potential advantages is transparent. All employees who are responsible for a product offer are also trained in transparent communication standards and are obligated to abide by them. In addition, the policy and standards of top quality customer service, complaint processing and responsible marketing at the Bank are governed by internal regulations, including the Code of Ethics for Advertising and the Ethical Business Practices of Bank Handlowy w Warszawie S.A.

Client complaints and enquiries

Information on the possible forms of submitting claims, complaints and grievance is easily accessible on the Bank's website.
It is possible to submit comments by:

- Sending a message after logging in to the electronic banking system – Citibank Online https://www.citibankonline.pl/
- Sending a letter to the Bank's address or orally at the Bank's Branch
- Sending an email to the address: listybh@citi.com or – in case of escalation – to Customer Advocate: rzecznik.klienta@citi.com
- Contact with CitiPhone: 22 362 2484

The Bank informs of a possibility to resolve amicably disputes in relations with clients and this information is made public on the Internet. An important quality-related element, monitored in the complaint handling process is the time taken to respond. The standard time for consideration of the complaints filed by Citigold and Citigold Private Clients is one working day, whereas for clients from other segments is 4 working days.

The Bank logs each dissatisfaction and each lack of consistency identified by Customers as complaints. 73% of cases involved queries, explanations or complaints where the root of error was outside the Bank. Analyses of complaints and clients' comments, manners of handling them and drawing conclusions for the needs of the Bank's operations, are presented at the Client Experience Board meetings held on a monthly basis. Based on the prepared analyses, corrective action plans are specified to reduce errors on the part of the Bank in the future.

In 2018, the Bank made another step towards digitalization of its processes in line with Customer expectations. Bank continued the development of the social media (Messenger) as its communication channel. About 500 queries submitted through this channel are handled monthly. In addition to standard queries how its products and services work, the Bank offers the use of a chat bot function – automated and customized information about rebates in the Citi Specials program. The chat bot can answer the Customers' queries about Citi Specials in a few seconds without involvement of the Banks' human staff.

As a means of contacting the Bank, the Chat is also available on the official website of Citi Handlowy. A specialised group of Consultants reply online to queries posted by the Bank's Customers. In our satisfaction survey, as much as 84% of Customers confirmed their true satisfaction with the degree of commitment demonstrated by Consultants to solve their problem; 87% Customers claim that their issue was resolved fully or in part.

Client Advocate

Establishment of the Customer Advocate is to both strengthen the cooperation between the Bank and the customers and increase customer satisfaction as far as the products and services offered by the Bank are concerned. The Bank invites its Clients to dialogue, through contact with the Customer Advocate. This way, the Bank invites its customers to share their opinions, comments and suggestions about functioning of the Bank. Customers are able to share their opinions, comments and suggestions about functioning of the Bank, and are provided with another opportunity to have their unsuccessful complaint examined again. Customers can contact the Customer Advocate by sending an enquiry to the Customer Advocate. In 2018, the Customer Advocate received 205 issues for consideration.

Client education

A different type of activity, which is not obligatory but perfectly fits into the overall effort to provide security and accessibility of banking products, is financial education of existing and potential clients.

Through the Kronenberg Foundation at Citi Handlowy the Bank pursues programs designed with the aim to build Poles' financial awareness leading to more reasonable and aware credit and investment decisions, as well as to preclude financial exclusion of specified social groups. The activities of the Kronenberg Foundation at Citi Handlowy focus on the activity in the area of financial education, within which a particular emphasis is put on building competences in personal finance. The support for entrepreneurship by preparing young people to launch their own businesses and enhancing the potential of existing companies – this is the Foundation's contribution to the development of the Polish economy. The Foundation pays particular attention to startups , with regard to their innovativeness.

The Foundation's activities are supplemented with competitions for micro-entrepreneurs and Polish companies conquering international markets, as well as entities from emerging markets investing in Poland.

The Foundation implements its tasks also through a program of surveys, under which it investigates, inter alia, Poles' attitudes towards saving and various aspects of activity of Polish companies abroad.

In addition, the Bank develops its internet sites to include the most important educational materials concerning transaction security and use of products and mobile access.

Gaining assurance that clients understand the mechanism of a product and that they know how to use it in the most suitable way, is also of importance to the Bank. For this purpose the Bank created on its sites Most Frequently Asked Questions section. Also educational materials are prepared for clients, from which they can learn how to manage their credit and credit history, observe current credit repayment dates and why it is important.

Client data protection

The Bank applies the highest information security standards. Regular audits are conducted in this regard, validated by the Bank's certificates such as certificates of compliance with ISO 27001 and ISO22301 for processes, products and services provided by the Bank to its clients.

The Bank undertakes to protect private and confidential information about its clients and to properly use that information. Those rules are described in the „Rules for Personal Data Protection at Bank Handlowy w Warszawie S.A." The Bank gathers, keeps and processes clients' personal data in manners prescribed by national laws so that products and services offered to clients could be more efficient in meeting clients' financial needs and in supporting them in attaining their financial goals. With this in mind, the Bank makes every effort to implement and maintain appropriate systems and technology, and to properly train employees who have access to such information. The suppliers whose services are used by the Bank also have an obligation to protect confidentiality of information, including personal data and confidential information they receive from the Bank. The Bank also observes its own stringent internal standards and regulations concerning the confidential nature and security of information and personal data (standards concerning information systems management, information security standards, general provisions on security). Concerned about the issue of security the Bank applies the best standards and uses such information only for justified reasons related to the performance of business duties, makes it available only to authorized persons and organizations, and keeps it in a proper and secure manner.

1.2 Caring for people

A strategic goal of the Bank is to attract, develop and retain the best talents who share the values of the Bank:

Shared goal	One team which pursues a shared goal: the best service for clients and stakeholders.
Responsible business	Striving to act in a transparent, prudent and responsible manner.
Innovation	Continuous improvements of solutions offered to our clients by providing them with complete information on products and services and delivering world-class products.
Talent development	A talented team of highly qualified professionals, offering excellent service, showing initiative and are capable of meeting even the most difficult challenges.

For is employees, the Bank has safe and friendly workplace, where employees can use their energy and feel appreciated for their personal achievements, satisfied and able to pursue their individual development paths. Employee development is supported by such activities as: training, involvement in challenging projects as well as an assessment process when employees gain information on their strong points and areas which need to be developed. The Bank has a HR policy which includes documented, measurable and systematically monitored objectives.

In 2018, the Bank adopted a HR strategy for the next 3 years, which assumes further activities, especially in the area of work-life balance, recognition of employee achievements and harmonious cooperation between teams.

The personnel selection and development process is one of the Bank's priorities. Employees have access to work proposals on the Career Mobility site, which enables them to apply for positions they are interested in within the Bank and other Citi companies.

Additionally, the Bank provides its employees with a rich package of perks to meet their personal and social needs.

Employee may opt for an employee pension scheme, life insurance products, sports package, private medical care, a social fund and banking products on preferential terms. Employees may also work flexible hours in order to enable them to fulfil their personal and professional obligations more efficiently.

Striving to ensure a safe workplace, the Bank makes efforts to optimize the working environment for all employees, with particular emphasis on compliance with occupational health and safety rules.

Employee satisfaction survey

Every year, the Bank carries out an employee satisfaction survey, called Voice of Employee. The objective is to find out more about the satisfaction and commitment of employees. Participation in the survey is voluntary. Questions asked in the survey concern, i.a., communication, professional development opportunities, meritocracy, relations with the supervisor and co-workers, participation in a decisions, balance between professional and personal life, diversity, and values and ethical principles followed by the Bank.

In the first step of the process to examine employee feeling employees fill in questionnaires. The next steps include an analysis of results, group interviews to provide more insight on the basis of those results and enable preparation of improvement plans after the survey, implementation and communication of outcomes to employees.

Following the best practices of Citi and market trends in the area of employee satisfaction surveys, in 2017 Bank Handlowy enhanced its dialogue with employee by deciding to carry out a Puls VOE survey three times a year.

The next regular employee satisfaction survey in the Bank was scheduled for autumn 2018.

Dialogue and freedom of association

Two unions are active at the Bank: NSZZ „Solidarność" – Mazowsze Region Intercompany Union Organization No 871 at Bank Handlowy w Warszawie S.A and the Independent Self-Governing Trade Union of Employees of Bank Handlowy w Warszawie S.A.

Code of Conduct for Employees of Bank Handlowy w Warszawie S.A.

The Code of Conduct is a general review of the most important internal regulations applicable at the Bank. All employees of the Bank are obliged to adhere to applicable laws, internal regulations and standards adopted by the Bank. The Bank strives to create for its employees optimal opportunities to develop their potential, to ensure them development and to support diversity while respecting dignity regardless of gender, race, religious beliefs or sexual orientation. The Code includes formal solutions for reporting of breaches. The Bank has an Ethics Helpline which may be used by employees to report issues relating to selection of the best course of action in specific situations or their reasonable suspicions or information relating to a possible infringement of laws or ethical standards and internal regulations applicable at the Bank. Reports can be submitted to the Ethics Helpline by telephone or to a mailbox. Reports can also be submitted anonymously.

Every year, employees of the Bank take part in mandatory online training relating to the Code of Conduct.

Every newcomer receives the Code of Conduct and must sign a statement that they have read it and will adhere to it in their everyday work.

Employee Volunteering Program

In the Bank, the largest Polish employee volunteering program is conducted coordinated by the Kronenberg Foundation at Citi Handlowy. It is designed with the aim of developing social commitment of the Bank's existing and former employees. 251 volunteering projects were implemented in 2018 for nearly 40,500 addressees. Volunteers (also those, who were not from the organization) took part in volunteering actions 4,480 times. They supported, including but not limited to: local communities, educational care centers, social organizations, self-government facilities and shelters for animals. The most important initiative in the previous year was another, already 13th edition of Citi Global Community Day. Every year, under that project, the Bank's employees together with their families and friends try to identify precisely the needs of their closest communities. In 2018, Citi volunteers conducted 207 social projects for over 38,000 addresses, as part of efforts made in connection with Citi Global Community Day.

In 2018, also key projects were continued, such as seasons action „Become Santa's Helper", integration trips for volunteering employees. In addition, as part of the all year activization, volunteers were invited to involve themselves in Senior Volunteering as well as in social actions in connection with the activity consisting in sending on a regular basis individual volunteering offers.

The diversity and number of delivered projects shows that social commitment on the part of the Bank's employees is being fostered and developed, for the benefit of a growing number of addressees – which is also confirmed in statistics.

Since 2015, effects of Citi volunteers' work within the largest Citi social action – World Citi for Community Day, can be measured by means of a questionnaire disseminated among partner organizations. Surveys conducted in 2018 showed that all partners were satisfied with cooperation with Citi volunteers and they declared their intention of further cooperation. As many as 99% of the surveyed persons were satisfied with the way, in which the project was implemented. The same number of persons confirmed the attainment of the goal. All the surveyed partners recorded lower organizational costs and 25% of them noticed that cooperation with qualified Citi employees significantly improved their organization management processes (e.g. in IT, HR or finance). All the surveyed persons would without hesitation have recommended cooperation with Citi volunteers to other organizations.

Furthermore, the Kronenberg Foundation at Citi Handlowy together with Narodowe Centrum Kultury (national Centre for Culture) organized the 3rd Nationwide Conference „Volunteering in Culture", which took place on 26 November 2018 in National Museum in Warsaw. Over 150 participants took part in the Conference – experts, volunteers and guests, representing cultural institutions from all over Poland. For the first time, the event included a presentation of 8 good practices. Representatives of cultural associations and institutions shared their proven ways to build trust in relationships with volunteers and to keep them committed. After presentations, the participants took part in a study visit to the National Museum, discussion panels and workshops about volunteering for heritage, youth volunteering and volunteering as a tool for education of HR resources for culture.

In 2018, the 6th edition of the Employee Volunteering Program survey was carried out. It covered Citi employees in Poland involved in volunteering (also outside the Employee Volunteering Program) and persons who have not had any contact with volunteering yet. The goal was to identify the satisfaction of volunteer of their social activities to date and also to learn their expectations toward the Program and benefits from participation in employee volunteering (both for employees and employer). The anonymous questionnaire was filled in by 267 respondents. The results show that Citi volunteers are mainly interested in repair and cleaning activities (this form of aid was chosen by as many as 80% of respondents). Employee volunteering affects the perception of Citi as their employer in the case of 83% of respondents. For 96% of them the influence is positive or definitely positive It is also worth noting that it is mainly volunteers who better assess their employer from the angle of employee volunteering. Volunteers also better assess the general climate of social responsibility at Citi.

1.3 Reduced environmental footprint

Environment protection is one of the fundamental principles pursued at the Bank. The Bank committed itself to conduct its activity in accordance with sustainable development principles. In 2007, a Comprehensive Environment Management Plan was adopted upon a resolution of the Management Board. In 2012 the Bank adopted the Environmental Policy and introduced the Environmental Management System (SZŚ). In 2013 the Bank introduced the Energy Policy and implemented Energy Management System (SZE). In 2015 both systems were integrated into one Environmental and Energy Management System (SZŚiE).

As part of its Policies, the Bank has identified the following objectives: ensuring correct waste segregation, reducing greenhouse gas emissions, ensuring most efficient management of utilities, in particular energy, minimize consumption of natural resources, controlling noise emissions, giving priority to buying energy saving products and services and improving energy performance.

Direct impact on the natural environment

Within the framework of its Policies, the Bank has identified two main areas where it affects the environment. The first impact is of direct nature and ensues from the Bank's activities, such consumption of resources (water, energy, paper consumption), waste production and air pollution. The second is of indirect nature and ensues from services rendered by the Bank and the environmental practice of our vendors.

As part of the integrated System (SZŚiE), the impact of particular locations of the Bank on the environment is monitored on an ongoing basis. For the Bank, consumption of energy is the top priority environmental aspect. At the same time, it is the impact which can be reduced most by the Bank. In 2012–2018, the Bank implemented various energy saving technology projects. These included upgrades of heating, ventilation and air conditioning systems (the ecological Free Cooling technology was installed in cooling systems in three buildings). On an ongoing basis, the Bank is switching to energy saving lighting systems, upgrading lifts or installing new equipment with energy recovery systems and improving thermoinsulation efficiency of its buildings by replacing windows or elevations. In addition, the Bank invests in the state-of-the art BMS (Building Management System) infrastructure, used for optimization of its utilities costs. Citi Handlowy also takes care of advanced office equipment, installs card-controlled air conditioning switches in conference rooms and upgrades UPS sets.

The Bank also strives to decrease consumption of other materials, like water or paper. One of its buildings is equipped with a rainwater collection system. In most objects, electric water dispensers are connected to the city water supply system to eliminate plastic bottles. The Bank uses a system for economic use of office paper for printing and economic use of paper towels (mechanical dispensing of paper towels). The Bank takes care of the environment by arranging greenery around its buildings, while paying attention to viability of planted trees and putting out nesting boxes for birds and bats. In its four main locations, the Bank has built bicycle shelters for employees, thus encouraging them to ride a bicycle more frequently.

In 2018, the Environmental and Energy Management System of the Bank passed a supervisory audit of compliance with ISO 14001 and ISO 50001. The audit results confirm that the system is effective and accomplishes its objectives.

Personnel education

The Bank runs environmental education and information campaigns for its employees and service providers. These include volunteering actions, training courses and intranet messages which disseminate information on the Environmental and Energy Management System. Every year, the Bank takes part in the Earth Hour and Earth Week events. In 2018, as in previous years, power supply was turned off in the main buildings of the Bank during the Earth Hour. As part of the International Earth Day, Citi Handlowy organized an Earth Week, dedicated to ecology. In 2018, an employee volunteering initiative to promote biodiversity protection was also carried out. Nesting boxes for birds and bats and insect hotels were deployed in the Powsin park. Messages covering completed energy saving projects, waste segregation, consumption of natural resources and the climate summit in Katowice (COP 24) were published on the intranet. In addition, as in every previous year, the Bank took part in the My City Free of Electrowaste action. For delivered electrowaste, the Bank received vouchers, which it donated to schools in Warsaw for purchase of educational materials and aids for pupils.

Indirect impact

Indirect environmental aspects emerge in connection with activities but are beyond the full control of the Bank. In cooperation with vendors, the Bank introduces the "Ethical Business Practices of Bank Handlowy w Warszawie S.A.". It also encourages vendors to implement their own effective policies in the area of environment protection, optimized use of goods and materials and reduction of pollution emissions. The Bank also expects that vendors will take the necessary steps in order to ensure that they would not buy from or sign agreements with companies which may be linked to illegal resources acquisition (illegal tree cutting). In 2018, a good example of support for the proecological Circular Economy model was the decision to order more than 5,000 calendars made of apple remains for employees and clients of the Bank. Those calendars are 100% recyclable and were produced from fruit remains which would otherwise not be utilized.

1.4 Local community involvement and development

The Kronenberg Foundation at Citi Handlowy has been acting for entrepreneurship and financial education, cultural legacy and employee volunteering for years, at the same being committed to the development of local communities. It was established in 1996 on the occasion of the 125th anniversary of Bank Handlowy w Warszawie S.A.

The Foundation coordinates one the largest and oldest (introduced in 2005) employee volunteering programs in Poland.

One of the areas of the Foundation operation is cultural heritage protection. As a result of the Foundation's efforts made under its program of recovering works of art, 42 graphics and lithographs of the greatest Polish painters (Juliusz Kossak, Leon Wyczółkowski) and two paintings (by Anna Bilińska – Bohdanowiczowa and Wojciech Gerson) returned to Poland. Also 172 items from the silver collection were recovered. The Professor Aleksander Gieysztor Award was granted to 19 persons and institutions for their outstanding achievements in the protection of Polish cultural heritage.

Programs organized by the Kronenberg Foundation at Citi Handlowy

- **The Emerging Market Champions Citi Handlowy Award** – the purpose of the competition is to promote enterprises which with success roll out their activity abroad. The project includes surveys, which are a tool to diagnose the climate of conducting business in Poland and global potential of our domestic companies. On 28 September 2018, during the plenary session "New division of the world: European Union – USA – China. Will digitization stop deglobalization?", organized as part of the European Forum for New Ideas in Sopot, an award ceremony was organized to honor the winners of the 5th edition of the contest. The „Emerging Market Champion" title in the category „Polish foreign investments" was granted to Wielton Group and the winner in the category „Foreign investments in Poland" was CEZ Poland sp. z o.o. In the new e-commerce category, the winner was CCC S.A. In the course of the project, the 5th edition of survey was carried out – this time it was focused on e-commerce trends in the market.
- **IT for SHE** – is an innovative combination of solutions in the field of mentoring, networking, inspiring and also in the development of competences, which support the development of female careers in the area of IT. Under the project, a coalition of international companies present on the Polish market and having a clear technological component in their activity is operating. Program components: an IT training camp for 120 girls, a mentoring program at top technology companies for 35 participants, a volunteering campaign in the countryside and small towns to promote computer programming education and, as the final stage of the project, the Women in Tech Summit, a two-day international conference visited by over 2,500 guests.
- **The Professor Aleksander Gieysztor Award:** this is the most prestigious award granted annually for outstanding achievements in the protection of Polish cultural heritage to institutions or private individuals. The winner of the 19th edition of the Award was Leon Tarasewicz rewarded for the many years of conscious efforts in building bridges between different ethnic, language and religious groups in the borderland of Poland, Belarus and Lithuania during many editions of the annual "Trialog" festival in Krynki (Podlaskie Voivodeship).
- **Recovering works of art:** the program which is aimed at recovering cultural goods lost by Poland during and as a result of the Second World War.
- **Roots:** the program under which the Foundation promotes the history of the Bank, as well as the lives and achievements of its founders the Kronenberg family. In 2018 activities commenced in the previous years were continued. Beginning from 2014, one can use the digital archives, which contain over 31 thousand pages of scanned documents and iconographic materials concerning the Bank and the Kronenberg family's activity. The materials are used for promotional actions, on occasions related to the Bank and Leopold Kronenberg's anniversaries.
- **Employee Volunteering Program at Citi Handlowy:** the program which is designed with the aim of developing social commitment of the Bank's existing and former employees.
- **Donations Program:** grant-based competition by means of which the Kronenberg Foundation at Citi Handlowy supports the most valuable projects implemented by non-profit institutions in the area of education and local development. Two grants were awarded in 2018.

Programs implemented with the support of the Citi Foundation

- **My Finance:** the largest financial education program in Poland addressed to the youth. In 2018, the program was implemented at schools by the Junior Achievement Foundation. In 2018 the program was addressed to 90,000 pupils. The program was delivered by 1,600 teachers.
- **Savings Week (TDO):** the program which combines financial education and the development of entrepreneurial attitudes, aimed at promoting saving and rational finance management among Poles and encouraging young people who enter the labor market to take their chances in business. The project is implemented together with the THINK! Foundation. The goal of the program is to work out systemic changes in the area of personal finance management and entrepreneurship education. The project consists of research „Poles' attitudes toward finance" (11th edition), Entrepreneurship Development Program and competitions at universities and high schools as part of the game „First Million".
- **Be Entrepreneurial** is an economic education program addressed to students of high schools. It is being carried out in cooperation with the Junior Achievement Foundation. The aim of the project is to impart knowledge regarding the broadly understood entrepreneurship to students and help them develop skills and competences in that area through incorporation and management of an enterprise in the form of a general partnership. In 2018, more than 2,000 students from 220 schools participated in the program.
- **Business in Women's Hands:** it is the program implemented together with the Foundation for Female Entrepreneurship addressed to 50 women who want to start their own company. Thanks to lectures, training and individual work with female mentors, each of the female participants has a chance to commence a business. The goal of the program is to establish a women company cluster operating in the territory of the Warsaw agglomeration. In 2018 the fifth edition of the cluster of female companies was launched and would end in the half of 2019.
- **Microentrepreneur of the Year** – competition organized in 2018 by the Association Inicjatywa Firm Rodzinnych (Family Business Initiative) with support of Koalicja na rzecz mikroprzedsiębiorczości (Coalition for microentrepreneurship). The aim of the competition consists in supporting entrepreneurship, encouraging people to set up their own

companies and promoting the best of them as examples of effective economic actions. The contest participants may win the main prize – the title Microentrepreneur of the Year – and category awards, depending on the age of a company. The youngest businesses are eligible to compete in the START category, middle-aged companies in the PROGRES category and the mature ones in the SENIOR category.

2. Cultural patronage and sponsorship

In 2018, the Bank and the Foundation supported numerous nation-wide and international conferences. One of them was the **8th European Financial Congress in Sopot,** an annual meeting of representatives of the European financial sector, the world of politics and economic experts. The leitmotiv of the 8th edition of the Congress was "For the centenary – innovative and secure future of the financial sector".

As part of its cooperation with the American Chamber of Commerce, Citi Handlowy was a partner of the **AmCham Diner** organized during the **European Economic Congress** in Katowice, the **Economic Forum** in Krynica and the **Congress 590** in Rzeszów. Representatives of Citi Handlowy participated in many panel discussions during all those events.

Citi Handlowy was a sponsor of the Polish edition of Graham Allison's **Destined for War: Can America and China Escape Thucydides's Trap?** This book, written by a renown historian from Harvard University and a practitioner in the field of international relations, is an insightful analysis of possible scenarios of future competition between the United States and China.

In 2018, Citi Handlowy continued its cooperation with Nextbike, an international city bike operator. Between March and November, city bikes in Warsaw, Łódź, Lublin, Wrocław, Białystok, Poznań, Szczecin, Upper Silesian Industrial Region, Katowice and Opole promoted products and services of the Bank. For Warsaw bikers, Citi Handlowy also launched a new version of the unique bank & bike application **Citi Handlowy Bikes,** for renting bikes. It includes many new functions, including an option to check how a bike ride improved quality of air in the city.

In 2018, Citi Handlowy established cooperation with **Live Nation,** leading organizer of concerts and live events. The Bank offered holders of Citi Handlowy cards access to exclusive pre-sales of tickets for concerts organized throughout Poland. Clients of the Bank were the first in line to buy tickets for concerts of Metallica, Bon Jovi, Beyoncé or Phil Collins. The strategic cooperation with Live Nation will be continued in 2019.

Under its Live Well at Citi program, the Bank supported development of sports in Poland in 2018. It was also a partner of the **Polish Golf Union** and the Title Sponsor of the **Citi Handlowy Lexus Business Cup,** a tennis tournament organized in six Polish cities from May to September. It was also a sponsor of the **Ironman Poland Tour** – triathlon races in Warsaw and Gdynia.

IX. Investor information

1. Ownership structure and stock prices on the Warsaw Stock Exchange

1.1 Shareholders

The only shareholder of the Bank holding at least 5% of shares and votes at General Meetings of Shareholders is Citibank Overseas Investment Corporation (COIC) – a company which holds foreign investment in Citi group of companies. COIC is also the strategic majority shareholder of the Bank. Over 2018, the number of shares held by COIC and its interest in the share capital and votes at General Meetings of Shareholders (GMS) did not change and was 97,994,700 shares and votes, i.e. 75% of share capital and votes.

The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in the organizational structure of Citigroup:

The other shares (32,664,900, i.e. 25% of share capital) are the so called free float, which means that they are freely traded on the Warsaw Stock Exchange.

Investors holding the Bank's shares include open-end pension funds (OFE), which – according to available annual reports on their asset structure – held, as at 31 December 2018, 15.31% of the Bank's shares, i.e. 0.54 p.p. more than as at 31 December 2017.

OFE investments in the Bank's shares were as follows:

Shareholder	31.12.2018		31.12.2017	
	Number of shares and votes in GSM	% of total number of shares and votes in GSM	Number of shares and votes in GSM	% of total number of shares and votes in GSM
Nationale Nederlanden OFE	4,516,944	3.46%	4,360,787	3.34%
Aviva OFE Aviva BZ WBK	4,124,227	3.16%	4,020,913	3.08%
OFE PZU	2,723,970	2.08%	2,024,149	1.55%
Aegon OFE	1,654,119	1.27%	1,615,914	1.46%
MetLife OFE	1,637,646	1.25%	1,634,409	1.25%
PKO BP Bankowy OFE	1,574,998	1.21%	1,905,380	1.24%
Allianz Polska OFE	1,459,838	1.12%	1,085,852	0.98%
AXA OFE	1,284,455	0.98%	1,281,916	0.83%
Generali OFE	686,777	0.53%	550,005	0.42%
OFE Pocztylion	340,501	0.26%	339,828	0.37%
Pekao OFE	0	0.00%	484,256	0.26%
Total	**20,003,475**	**15.31%**	**19,303,410**	**14.77%**

Source: Annual information about the structure of assets of Open Pension Funds; Bank share closing price at the end of the period

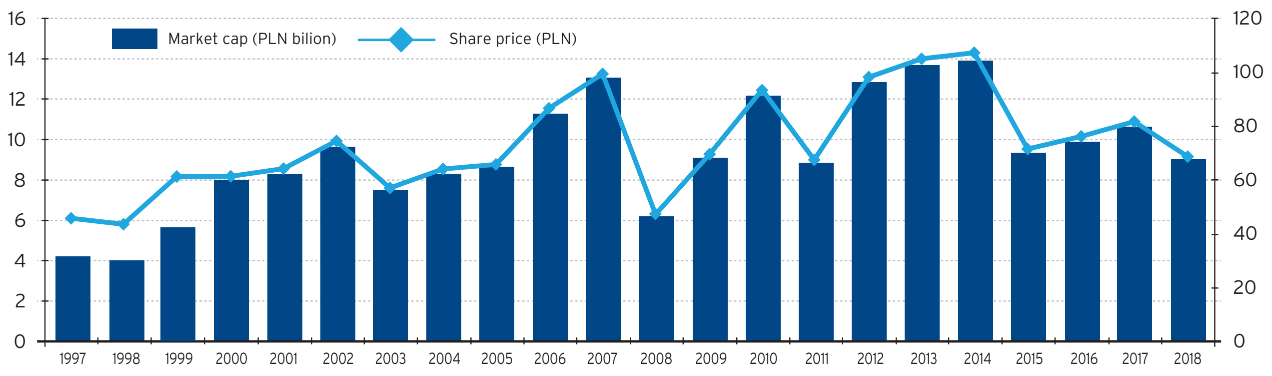
** In 2018 OFE PZU purchased assets of PEKAO OFE*

1.2 Performance of the Bank's shares on the WSE

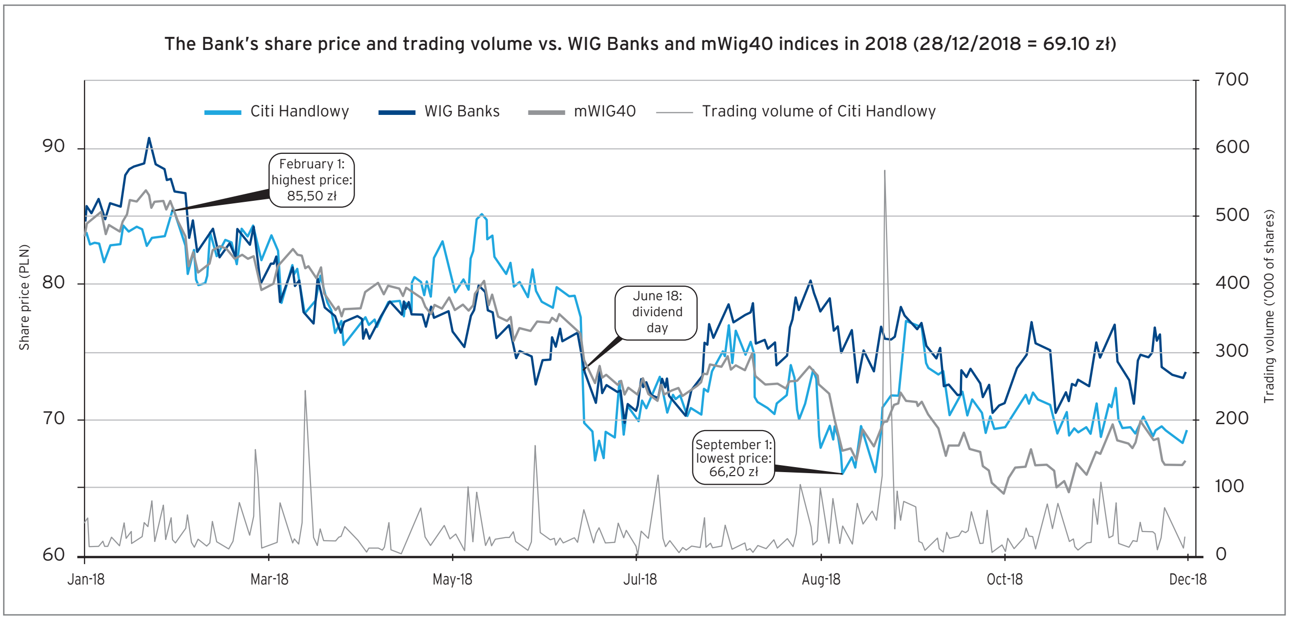
In 2018, the Bank's shares were part of the following indices: WIG, mWIG40, WIG Banks and WIGdiv. In addition, the Bank has been included in the RESPECT Index (socially responsible companies listed on the WSE Main Market) since its first edition.

At the last session in 2018 (i.e. on 28 December 2018), the price of the Bank's shares was PLN 69.10, i.e. 16% below the level of 29 December 2017 (PLN 81.88). In the same period, the WIG and WIG-Banks indices declined by 9% and 12%, respectively.

Market capitalization and share price of Citi Handlowy since its debut on the WSE (end-of-period data)



As at the end of 2018, the capitalization of the Bank was PLN 9.0 billion (as compared to PLN 10.7 billion at the end of 2017). The stock market ratios were: price/earnings (P/E): 14.1 (in 2017: 20.0); price/book value (P/BV): 1.3 (in 2017: 1.5).



In the beginning of 2018, the Bank's shares were appreciating. In February, they reached the 2018 high, i.e. PLN 85.50. In next two months of 2018, the prices of Bank's shares declined to PLN 75.60 and, then, rose to PLN 84.80 (in May 2018). In the second half of 2018, the Bank followed a downward trend. In September 2018, it dropped to its 2018 low, i.e. PLN 66.20. Finally, the Bank closed the year, on 28 December 2018, at the level of PLN 69.10.

The average price of the Bank's shares in 2018 was PLN 75.54, with the average daily turnover above 36,500 shares.

2. Dividend

On 13 March 2019, the Management Board adopted a resolution on the proposed distribution of net profit for 2018 and recommended to allocate for the payment of the dividend 74.8%, which is PLN 3.74 per ordinary share.

The final decision on the distribution of net profit for 2018 will be made by the General Meeting of the Bank.

The table below shows a history of dividends since 1997, i.e., since the floatation of the Bank on the WSE.

Financial year	Dividend (PLN)	EPS (PLN)	Dividend per share (PLN)	Dividend pay-out ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%
2014	971,422,828	7.43	7.43	99.9%
2015	611,486,928	4.75	4.68	98.6%
2016	591,887,988	4.62	4.53	98.0%
2017	537,010,956	4.11	4.11	100.0%
2018***	488,666,904	5.00	3.74	74.8%

* *Dividend-payout ratio for 2004 – 100% plus prior year profits.*

** *On 18 June 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008.*

*** *As recommended by the Management Board on March 13, 2019.*

3. Rating

As at the end of 2018, the Bank had a full rating from the international rating agency: Fitch Ratings ("Fitch").

On 12 October 2018, after the annual rating review, Fitch maintained all the ratings of the Bank at the following levels:

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

* *The viability rating represents Fitch's view as to the intrinsic creditworthiness of an issuer excluding any impact of external factors.*

In the justification, Fitch declared that the Bank's ratings reflected its stable business model, conservative approach to risk, strong capital position, high quality of assets and high profitability, as well as stable financing and liquidity. Simultaneously, the Bank's rating reflects its capital surplus over the requirements imposed by the regulator and the prudent business model.

4. Investor relations

Investor relations, which provide existing and prospective investors, capital market analysts and rating agencies with necessary information, are an integral component of the information policy of the Bank, which is to meet the information needs of all persons and institutions searching for information on the Company. The information policy tools used in investor relations are:

- regular contacts with investors and analyst during conference calls and meetings, also at the Bank's seat, with participation of members of the Bank's Management Board;
- support by the Press Office during quarterly press conferences for the media, held after publication of periodic reports;
- the website of the Bank where information on the Bank and its activities and all periodic and current reports are published; the website is also a convenient venue for contacting the Investor Relations Unit (BRI), which is a source of comprehensive information on the Bank and the Group.
- presence of the media at General Meetings of Shareholders of the Bank.

In 2018, representatives of the Management Board and the Investor Relations Unit held over 51 individual, group meetings and teleconferences with investors. At the same time, representatives of the Bank took part in investor conferences organized in Poland and abroad.

In addition, the Bank held meetings at its head office with capital market analysts and representatives of investors in connection with presentation of its financial results after every quarter.

X. Statements of Bank Handlowy w Warszawie S.A. concerning application of corporate governance standars in 2018

1. Corporate governance standards applied by Bank Handlowy w Warszawie S.A.

Since 2003, Bank Handlowy w Warszawie S.A. ("Bank" or "Company") has been adhering to the corporate governance standards adopted by the Warsaw Stock Exchange, initially as the "Best practices of public companies 2002"and subsequently replaced by: "Best practices of public companies 2005" and "„Best Practice of GPW Listed Companies 2008", and from 1 January 2016 by „Best Practice of GPW Listed Companies 2016" ("BPLC"). This document is available on the website of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) (http://www.gpw.pl) in the section dedicated to corporate governance of listed companies.

The primary goal of the decision to adopt the corporate governance principles of the Warsaw Stock Exchange as the standard of the Bank was and is the intention to build transparent relations between all the bodies and entities involved in the functioning of the Company and to ensure that the management of the Company and its undertaking is carried out in a proper and prudent manner, with loyalty to all shareholders. The willingness to ensure transparency of the Bank's activities, in particular with respect to relations and processes between statutory bodies of the Company, also resulted in the adoption of best practices covered by the BPLC document for application at the Bank.

On 25 February 2016, the Management Board of the Bank declared an intent to comply with the corporate governance principles included in the "Best Practice of GPW Listed Companies 2016". On 11 March 2016, the Supervisory Board of the Bank accepted the Bank's policy towards the application of the corporate governance principles included in the "Best Practice of GPW Listed Companies 2016". However, either Boards made their declaration with the following reservations:

a) Recommendation IV.R.1 is not applicable. Best Practice of GPW Listed Companies (BPLC)(companies should strive to hold an ordinary general meeting as soon as possible after the publication of an annual report") is not applicable to the ordinary general meeting of the Bank to be held in 2016;

b) Recommendation IV.R.2 is applicable, Best Practice of GPW Listed Companies (BPLC) (e-general meeting) provided that the Management Board decides so before each such general meeting is held;

c) Principle VI.Z.2 is not applicable. Best Practice of GPW Listed Companies (BPLC)(the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years) is not applicable.

In 2018, the Bank did not apply the following BPLC principles and recommendations:

a) Principle VI.Z.2 relating to determination of the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability, which should be no less than two years;

b) Recommendation IV.R.1 which requires that an ordinary general meeting should be held by the Bank in 2018 as soon as possible after the publication of the an annual report;

c) Recommendation IV.R.2. Item 2) and item 3) concerning the obligation to enable shareholders to participate in a general meeting using electronic communication means, and in particular real-time bilateral communication, where shareholders may take the floor during a general meeting from a location other than the location where the general meeting is held, and to exercise the right to vote during a general meeting, either in person or through a representative.

Ad (a) Principle VI.Z.2. of the BPLC. The incentive programs of the Bank, including the deferred monetary remuneration programs and the programs based on a financial instrument, i.e. phantom shares, are in compliance with the best practice for the financial sector and the requirements set out previously in Resolution No 258/2011 of the Polish Financial Supervisory Authority (KNF) of 4 October 2011 and now in the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, the remuneration policy and the detailed method of estimation of internal capital at banks and in the Banking Law, which implement CRD III and CRD IV. Those regulations include requirements that are slightly different from those set out in the "Best Practice of GPW Listed Companies 2016". The incentive programs of the Bank, which are based on the above regulations, reflect the specific nature of the banking sector and are to protect the interests of clients and shareholders of the Bank and to ensure its stable growth. The details of the incentive programs are available in the annual report of the Bank and in the information on the scope of capital adequacy of Bank Handlowy w Warszawie S.A. Group of Companies. Depending on the shape of regulations and laws applicable in the banking sector with respect to a broadly define remuneration policy, the Bank will consider a modification of the incentive schemes which are based on a financial instrument.

Ad (b) Recommendation IV.R.1. of the BPLC. Because of the adopted schedule of corporate events in 2018 and the fact that the Bank is waiting for the Regulator's consent to payment of dividends from profits for 2017, this recommendation was not applied during the Annual General Meeting that was held in 2018.

Ad (c) During the Annual General Meeting held on 8 June 2018, Recommendation IV.R.2. Item 2) and item 3) of the BPLC was not applied. When assessing the possibility to apply this recommendation, the Bank took into account the legal and organizational & technical risks connected with providing the shareholders who are not present in person at the General Meeting with real-time bilateral communication, with the use of electronic communication means, which may adversely affect the course of the General Meeting. The Bank believes that the possibility to exercise voting rights during an electronic General Meeting with the use of electronic communication means raises objections and generates an increased risk of irregularities during the General Meeting. The technology solutions which are available at present do not ensure safe remote voting, which may affect the issue of validity of resolutions, i.e. lead to serious legal consequences. The Bank also took into account potential technical problems, including those connected with identification of shareholders, selection of the appropriate medium for bilateral communication, inability to ensure that the equipment-related requirements will be met on the side of the shareholder, unpredictable delays in transmission for different remote shareholders in different time zones, communication problems caused by factor beyond the Bank's control, including those caused, for example, by regional problems with particular components of the Internet public network.

2. Information on the application of Corporate Governance Principles for Supervised Institutions

The Polish Financial Supervision Authority in a resolution of 22 July 2014 issued a document entitled Principles of Corporate Governance for Supervised Institutions ("Principles"), which came in force on 1 January 2015.. The Principles are available on the official website of the Polish Financial Supervision Authority:

https://www.knf.gov.pl/knf/pl/komponenty/img/knf_140904_Zasady_ladu_korporacyjnego_22072014_38575.pdf

The principles are a set of rules governing internal and external relations of institutions supervised by the KNF, including their relationships with shareholders and customers, their organization, the operation of internal oversight as well as of key internal systems and functions, and of corporate bodies and their cooperation.

The purpose of the Principles is to enhance corporate governance in financial institutions and transparency of their operations, which is designed to promote public confidence in the Polish financial market.

Bank Handlowy w Warszawie S.A. performs a regular assessment of the application of the Principles of Corporate Governance for Supervised Institutions.

On 7 March 2018, the Management Board of Bank Handlowy w Warszawie S.A. approved the "2017 Report – Assessment of the Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." prepared by the Compliance Department. The Management Board of the Bank submitted to the Audit Committee of the Supervisory Board and, next, to the Supervisory Board of the Bank a Report of the Compliance Department which includes an independent assessment of application at the Bank of the "Principles of Corporate Governance for Supervised Institutions" for 2017, in order to enable the Audit Committee of the Supervisory Board and the Supervisory Board to make their own assessments of application at the Bank of the "Principles of Corporate Governance for Supervised Institutions" for 2017.

The Audit Committee, pursuant to the provision of Article 3.1 (b) of the Regulations of the Audit Committee, after becoming familiar with the "2017 Report – Assessment of Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." prepared by the Compliance Department, recommended that the Supervisory Board ought to assess that in 2017 the Bank applied rules stemming from the Principles of Corporate Governance for Financial Institutions, with the exception of those principles that the Bank decided not to apply.

On 21 March 2018, the Supervisory Board of Bank Handlowy w Warszawie S.A. became familiar with the "2017 Report – Assessment of Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." prepared by the Compliance Department and containing an independent assessment of the application of the Principles of Corporate Governance for Supervised Institutions.

On the basis of the above Report of the Compliance Department containing an independent assessment of the application of the

"Principles of Corporate Governance for Supervised Institutions" and taking into consideration a positive recommendation issued by the Audit Committee of the Supervisory Board, the Supervisory Board assessed independently that in 2017 the Bank applied the rules resulting from the Principles of Corporate Governance for Supervised Institutions, except for the excluded principles.

The result of the independent assessment of the application of the Principles was passed on to other corporate bodies of the Bank.

The Annual General Meeting of Bank Handlowy w Warszawie S.A.:

- by its Resolution no. 5/2018 dated 8 June 2018, upon examining the Management Board Report on activities of Bank Handlowy w Warszawie S.A. and of the Capital Group of Bank Handlowy w Warszawie S.A. containing the Statement on the application of corporate governance in 2017, decided to approve the Management Board Report on activities of Bank Handlowy w Warszawie S.A. and of the Capital Group of Bank Handlowy w Warszawie S.A. in the year 2017;
- by Resolution No. 13/2018 of 08 June 2018, approved the Report of the Supervisory Board of Bank Handlowy w Warszawie SA on the operations of the Supervisory Board in the period from the date of the Annual General Meeting of the Bank in 2017 to the date of the Annual General Meeting of the Bank in 2018, containing: the reports and the assessments specified in the Principles of Corporate Governance for Supervised Institutions, adopted by the Bank for application.

Pursuant to the requirements of the Principles of Corporate Governance for Supervised Institutions and the information policy adopted by the Bank, after the Supervisory Board of Bank Handlowy S.A. performed an independent assessment of the application of the Principles of Corporate Governance for Supervised Institutions, the Bank makes available on its website the information on the application of the Principles, and on the non-application of specific Principles.

With regard to three Principles, the decision not to apply them was upheld:

1) Article 11.2 (transactions with related parties) – this principle shall not be used with respect to contracts tied to day-to-day operations, in particular to contracts tied to liquidity, due to the nature of transactions and the number of contracts being concluded;
2) Article 8.4 (electronic General Meeting) – currently available IT solutions do not guarantee a secure and efficient electronic form of holding a General Meeting. However, the Management Board does see the importance of such form of shareholders' participation in the Bank's General Meeting, and therefore a separate decision on that matter shall be made before each General Meeting;
3) Article 16.1 (meetings of the Management Board of the Bank held in the Polish language) – meetings of the Management Board attended by foreigners, and especially foreigners who are members of the Management Board and do not speak Polish, are held in the English language. Simultaneously, any motions submitted to the Management Board, any materials and minutes of meetings are prepared and kept in Polish and in English.

3. Description of main features of internal control and risk management systems in place at the Bank with respect to the process of preparation of financial statements and consolidated financial statements

Financial statements of the Bank are prepared by the Financial Reporting, Control and Tax Department, which is a separate organizational unit in the structure of the Finance Management Sector and reports directly to the Chief Financial Officer of the Bank, who is also a Vice President of the Bank's Management Board. The process of preparation of financial statements is covered by an internal control system, which is to ensure: effective and efficient activities of the Bank, reliability of financial reporting, compliance with the principles of risk management at the Bank and compliance of the Bank's activities with laws, internal regulations and market standards. The internal control system includes identification and control of risks connected with the process of preparation of financial statements, examination of compliance of those activities of the Bank with laws and internal regulations, horizontal and vertical monitoring and internal audit.

Internal control is exercised by each and every employee and, in addition, by their direct manager and persons cooperating with him/her as well as by managers of organizational units of the Bank. Risk management is carried out via internal mechanism for risk identification, assessment, mitigation, control, monitoring and reporting performed and supervised by units of the first level of risk management (first line of defense) and specialized organizational units of the second line of defense. Within the internal control functions, there is a separate financial control function, which is performed by a dedicated unit of the Finance Management Sector. Financial control in the Finance Management Sector covers the areas of accounting policy and financial reporting. Quarterly Self-Assessment is a process used to verify and assess the effectiveness of control processes and to proactively and effectively manage any significant risk categories which are inherent in the process of preparation of financial statements. The Quarterly Self-Assessment process is one of the key tools used to monitor the level of exposure to operational risk and changes in the financial reporting environment, identify emerging risks, verify the effectiveness of controls and implement remedial plans.

As part of the process of identification, prevention, control, monitoring and reporting of operational risk exposures, the Bank has implemented effective mechanisms that mitigate risks affecting the security of technology systems. The IT systems used in the process of preparation of financial reporting are covered by the continuity of business plan of the Bank in case they are lost.

Vertical monitoring is enforced by dedicated units from the second level of the control system. Horizontal monitoring is carried out in the course of the self-assessment process by units responsible for the control being verified.

Internal audit activities at the Bank are carried out by the Internal Audit Department. The Internal Audit Department is responsible for independent and objective assessments of adequacy and effectiveness of the internal control system and the effectiveness of management of risks connected with activities of the Bank. The Internal Audit Department carries out internal checks, assesses activities initiated by organizational units of the Bank and carries out audits in subsidiaries of the Bank in connection with supervision exercised by the Bank over risks connected with operations of its subsidiaries with respect to their compliance with internal regulations, applicable laws and regulatory requirements and the effectiveness and reasonableness of controls. The Internal Audit Department is a separate organizational unit in the structure of the Bank, reporting directly to the President of the Bank's Management Board.

The operation of the internal control system and the Internal Audit Department is overseen by the Supervisory Board of the Bank. The Supervisory Board carries out its function with help of the Audit Committee, which – as part of its supervisory tasks – verifies, jointly with the Management Board and the statutory auditor, the accuracy of prepared financial statements and the correctness of functioning of processes connected with their preparation, and submits recommendations concerning approval of annual and interim financial statements by the Supervisory Board of the Bank.

The Head of the Internal Audit Department informs the Management Board of the Bank and the Audit Committee of the Supervisory Board of the Bank of results of completed audits and periodically, and at least once in a year, provides the Supervisory Board with a summary report on identified irregularities and conclusions arising from the completed internal audits, and corrective actions initiated to remedy those irregularities. The Head of the Internal Audit Department is authorized to participate in meetings of the Management Board and Supervisory Board at which issues relating to the functioning of the internal control systems at the Bank are to be discussed.

4. Significant shareholdings

A shareholder which holds a significant lot of the Bank's shares is Citibank Overseas Investment Corporation (COIC) (subsidiary of Citibank N.A.), which owns 97,994,700, shares, i.e. 75% of the Bank's share capital. The number of votes held by COIC from those shares is 97,994,700, i.e. 75% of total votes at the General Meeting of Shareholders of the Bank.

5. Holders of all securities with special control rights together with a description of those rights

The Bank has not issued any securities that would give its shareholders any special control rights.

6. Restrictions on the exercise of voting rights

No restrictions on the exercise of voting rights have been provided for at the Bank.

7. Restrictions on the transfer of ownership of the securities

No restrictions on the transfer of ownership of the securities issued by the Bank have been introduced at the Bank.

8. Rules governing the appointment and dismissal of Members of the Management Board and their powers

The Management Board of the Bank consists of five to nine members. The Management Board consists of: President of the Company's Management Board, Vice Presidents of the Company's Management Board and Members of the Management Board. At least half of all members of the Management Board should be Polish citizens. Each member of the Management Board is appointed by the Supervisory Board upon a request of the President of the Management Board or a member of the Supervisory Board for an individual 3-year term of office. Two members of the Management Board, including the President and the member in charge of risk management at the Bank, require consent of the Polish Financial Supervision Authority to be appointed.

The mandate of a member of the Management Board expires:

1) on the day on which the General Meeting is held to approve the report of the Management Board on the activities of the Bank and the financial statements for the last full financial year in which the member performed his or her function;
2) upon death of the Management Board member;
3) on the day the Management Board member is recalled;
4) on the day a resignation in writing is submitted to the Chairman of the Supervisory Board.

By way of resolution, the Management Board makes decisions in the Company's affairs, except for matters that – under the law or articles of association – are within the powers of other bodies of the Company, and in particular it:

1) determines the strategy of the Company;
2) establishes and dissolves committees of the Company and determines their competences;
3) adopts its rules and submits them to the Supervisory Board for approval;
4) adopts the rules of management of special funds created from net profit and submits them to the Supervisory Board for approval;
5) determines dividend payouts, on dates fixed by the General Meeting;
6) appoints general proxies (prokurenci) and general attorneys and general attorneys having a substitution right;
7) makes decisions in matters set out in the rules of the Management Board;
8) makes decisions in matters submitted by the President, a Vice President or a Member of the Management Board;
9) passes a resolution to adopt the annual financial plan of the Company, adopts investment plans and accepts reports on their performance;
10) accepts reports on activities of the Company and its financial statements;
11) prepares recommendations concerning appropriation of profits and losses;
12) approves the human resources management policy and the legal principles for the Company's activities;
13) approves the principles of management of the Company's capital;
14) approves the employment structure;
15) determines and presents to the Supervisory Board for approval the general organizational structure of the Bank reflecting the size and profile of incurred risks and appoints and removes Heads of Sectors and Heads of Divisions, and determines their competence;
16) determines the inspection plan for the Company and accepts reports on completed checks;
17) makes decisions in other matters which according to the Articles of Association are to be submitted to the Supervisory Board or General Meeting;
18) makes decisions to incur liabilities or dispose of assets if their total value with respect to a single entity exceeds 5% of the Company's equity or grants powers of attorney to designated persons to make such decision, however in case of matters within the powers of Committees established at the Company, such decisions must be first consulted with the competent Committee.

Persons authorized to submit matters to the Management Board include:

1) President of the Management Board;

2) other members of the Management Board;

3) heads of other organizational units – in matters within the scope of operations of those units, upon consent of the member of the Management Board in charge or the President of the Management Board.

Provided that decisions concerning matters relating to the basic organizational structure of the Bank and appointments or dismissals of Sector Heads or Division Head and to determine their competences are initiated or must be agreed with the President of the Management Board.

The Management Board determines, in a resolution, the internal division of powers between members of the Bank's Management Board and submits it to the Supervisory Board for approval.

Within the framework of the internal division of powers in the Management Board of the Bank:

1) there is a separate function of the member of the Management Board responsible for supervision over the management of risks significant to activities of the Bank;

2) the Internal Audit Department reports directly to the President of the Management Board;

3) the President of the Management Board may not be appointed as member of the Management Board responsible for supervision over the management of risks significant to activities of the Bank;

4) the president of the Management Board must not be entrusted with supervision over those areas of the Bank's activities which create a significant risk to activities of the Bank;

5) the member of the Management Board who is responsible for supervision over the management of risks significant to activities of the Bank must not be entrusted with supervision over those areas of activities of the Bank that generate the risks the management of which is supervised by that member;

6) a designated member or members of the Management Board are entrusted with supervision over the area of management of non-compliance and the area of financial accounting and reporting.

9. Amendments to the Articles of Association

The Articles of Association of the Bank may only be amended by the General Meeting of Shareholders. An amendment to the Articles of Association must be recorded in the register of entrepreneurs of the National Court Register. Pursuant to Article 34(2) of the Act of 29 August 1997 – Banking Law, an amendment to the Articles of Association of the Bank requires approval by the Polish Financial Supervision Authority (KNF).

10. General Meeting procedure, description of its fundamental powers as well as shareholder rights and methods of exercising them

10.1 General Meeting procedure

The General Meeting at the Bank operates in accordance with the General Meeting Regulations, the Articles of Association and provisions of law. The General Meeting of the Bank (General Meeting) has stable Regulations, specifying detailed rules for conducting meetings and adopting resolutions.

According to the practice adopted by the Company, the General Meeting is held at the registered office of the Company in Warsaw. The Annual General Meeting is convened by the Management Board. It should be held within six months of the end of each financial year. The Supervisory Board has the right to convene the Annual General Meeting if the Management Board fails to do so within the time limit specified in the Articles of Association, and the Extraordinary General Meeting, whenever deemed necessary. The Management Board convenes the Extraordinary General Meeting at its own initiative and at the request of a shareholder or shareholders representing at least one-twentieth of the share capital. A request to convent the Extraordinary General Meeting must be submitted to the Management Board in writing or electronically. If the Extraordinary General Meeting is not convened within two weeks after a request is made to the Management Board, the registry court may, by way of a ruling, authorize the shareholders or shareholders who submitted the request to convene the Extraordinary General Meeting. The shareholder or shareholders so authorized by the registry court must invoke the registry court's ruling referred to in the preceding sentence in the notice convening the Extraordinary General Meeting. The registry court appoints the chairman of that Extraordinary General Meeting. The Extraordinary General Meeting may also be convened by shareholders representing at least half of the Bank's share capital or at least half of the total number of votes at the Bank. The chairman of the Meeting is appointed by shareholders. The General Meeting is convened by an announcement placed on the Bank's website and in the manner prescribed for making current disclosures by public companies, provided that the announcement should be made at least twenty-six days before the date of the General Meeting. The shareholders entitled to request that a specific matter be placed on the agenda of the General Meeting, in order to exercise that right to complete the agenda, should submit a written or electronic motion to the Bank's Management Board, together with reasons and a draft resolution on the proposed agenda item, by no later than twenty-one days before the set date of the General Meeting. The Management Board places the item requested on the agenda of the next General Meeting immediately but no later than eighteen days before the set date of the General Meeting. The General Meeting may only be cancelled if it becomes unnecessary or in the event of an extraordinary hindrance to its holding. Cancellation and rescheduling of the General Meeting is made in the same manner as its convocation, provided that the twenty-six day advance notice does not apply. Cancellation and rescheduling of the General Meeting should be made in a manner which is least prejudicial to the Bank and shareholders. The General Meeting may adopt a resolution on refraining from considering a matter placed on the agenda or on changing the order of agenda items. However, taking an item off the agenda or refraining from consideration of an item placed on the agenda at the request of shareholders is subject to a prior consent of all the present shareholders who submitted the request, with 80% of General Meeting votes in favor. Requests on above matters should state detailed reasons.

A full text of the documentation to be presented during the General Meeting together with draft resolutions (if no resolution is envisaged on a matter – remarks of the Management Board) is published on the Bank's website as of the date of convening the General Meeting, together with other information regarding the General Meeting. Materials for the General Meeting are also made available at the Bank's office at the time when the Bank announces the notice convening the General Meeting. Notwithstanding the foregoing, the Bank performs all the information obligations arising from generally applicable regulations regarding convocation of General Meetings.

The General Meeting is opened by the Supervisory Board Chairman and, in his absence, successively, by the Deputy Chairman or one member of the Supervisory Board. According to the practice of holding General Meetings, as adopted by the Company, immediately after opening of the General Meeting, election of its Chairman is ordered. Prior to election of the Chairman, the General Meeting does not make any decisions.

The Bank's Management Board, each time through the person opening the General Meeting, provides the Chairman of the

General Meeting with instructions on how to serve in that capacity in a manner that ensures compliance with generally applicable laws, corporate governance, the Articles of Association and other internal Bank regulations. The General Meeting should be attended by members of the Management Board and the Supervisory Board as well as the Bank's statutory auditor if financial matters are the subject of the General Meeting.

Voting at the General Meeting shall be open. Secret voting shall be ordered on elections or on motions to recall or hold accountable members of Company authorities or its liquidators, and on personal matters. In addition, secret voting shall be ordered at the request of at least one of the shareholders present or represented at the General Meeting.

The General Meeting shall be valid regardless of the number of shares represented, save as provided for by law. Resolutions of the General Meeting are adopted by an absolute majority of votes present unless provisions of law or the Articles of Association provide otherwise.

The Bank may arrange the General Meeting in a manner which enables shareholders to participate in the General Meeting with the use of electronic means of communication, in particular through:

1) real-time transmission of the General Meeting;
2) two-way real-time communication which allows the shareholders who use electronic means of communication to take the floor remotely during the General Meeting;
3) exercising voting rights in person or by a proxy before or during the General Meeting.

The rules for shareholders' participation in the General Meeting and the rules of procedure during the General Meeting, as well as the method of communication between shareholders and the Bank using electronic means of communication are set out in the General Meeting Regulations. The General Meeting Regulations may authorize the Management Board to identify additional methods of communication between shareholders and the Bank, using means of electronic communication other than those specified in those Regulations.

Additional methods of communication will be published by the Management Board in the notice convening the General Meeting. Notwithstanding the foregoing, the Bank may broadcast proceedings of the General Meeting via the Internet as well as record the proceedings and publish that record on the Bank's website after the meeting.

Voting in practice is done with the help of a computer system for casting and counting votes, which ensures that the number of votes cast corresponds to the number of shares held, as well as prevents – in the case of secret voting – tracing the votes cast to individual shareholders.

The Chairman of the General Meeting should phrase resolutions in such a way that any authorized person who disagrees with the merits of the decision being made in the resolution could challenge it. The Chairman of the General Meeting is responsible for ensuring that resolutions are worded in a clear and transparent manner. The Management Board of the Company also allows the Chairman to obtain the assistance of the Company's legal services.

Resolutions of the General Meeting are recorded by a notary public. The minutes must state that the General Meeting has been validly convened and is able to adopt resolutions, listing the resolutions adopted, stating the number of votes cast in favor as well as any dissensions. A list of attendance with signatures of the participants of the General Meeting should be attached to the minutes. The Management Board should enclose evidence of convening the General Meeting with the book of minutes.

A copy of the minutes is placed by the Management Board in the book of minutes.

General Meetings may be attended by representatives of the media.

10.2 Fundamental powers of the General Meeting

The Annual General Meeting should be convened for the purpose of:

1) consideration and approval of the Management Board report on Company operations and its financial statements for the previous accounting year, as well as the consolidated financial statements of the Company's Group;
2) adoption of a resolution on profit distribution or coverage of losses;
3) acknowledgment of the fulfillment of duties by members of Company authorities.

In addition to matters provided for in mandatory provisions of law, the General Meeting has the authority over the following matters in particular:

1) sale or lease of the enterprise or its organized portion, and establishment of limited property rights thereon;
2) amendments to the Articles of Association;
3) increasing and reducing the share capital of the Company;
4) determination of the date of pre-emptive rights to new shares;
5) determination of the dividend day for the previous accounting year and dividend payment dates;
6) creation and release of special funds set up from profit;
7) appointment and recall of Supervisory Board members;
8) determination of the remuneration of Supervisory Board members;
9) merger or winding up of the Company;
10) appointment and recall of liquidators;
11) cancellation of Company shares;
12) use of supplementary and reserve capital, including the reserve capital (fund) established in order to accumulate undistributed profit (not intended for dividends in a given accounting year) and the banking risk fund.

The General Meeting decides on profit distribution, specifying the amounts of accruals for:

1) supplementary capital accrued annually from profit at the minimum of 8% of the profit for the accounting year until that capital reaches at least one third of the share capital. The General Meeting may adopt a resolution requiring further accruals;
2) reserve capital;
3) general risk fund;
4) dividend;
5) special funds;
6) other purposes.

In the event of winding up of the Company, the General Meeting appoints one or more liquidators at the request of the Supervisory Board and determines the method of winding up.

10.3 Shareholders' rights and their exercise methods

Company's shares are bearer shares and are transferable. Shareholders have the right to share in the profit reported in the financial statements audited by a statutory auditor if that profit has been allocated by the General Meeting to payments to shareholders. Profit is distributed in proportion to the number of shares held.

Only those who are the Bank's shareholders sixteen days before the date of the General Meeting (Date of Registration for participation in the General Meeting) are entitled to participate in the General Meeting of the Bank as a public company.
A shareholder participating in the General Meeting has the right to vote, put forward motions and raise objections, as well as provide a brief explanation of his/her position.

Draft resolutions proposed for adoption by the General Meeting and other relevant materials should be presented to shareholders together with the reasons and opinion of the Supervisory Board prior to the General Meeting, allowing sufficient time for their review and assessment.

A shareholder may participate in the General Meeting and exercise their voting rights in person or through a proxy.

Each shareholder has the right to run for Chairman of the General Meeting as well as propose a candidate for Chairman of the General Meeting for the record.

Whenever any item of the agenda is being considered each shareholder has the right to speak and respond.

The Management Board is required to provide the shareholder, at the latter's request, with information about the company if it is necessary to assess a matter on the agenda. The Management Board should refuse to provide such information if:

1) this may be detrimental to the Company, its affiliated company or its subsidiary company, in particular as a result of disclosure of technical, commercial or organizational company secrets;
2) this could expose a Management Board member to criminal, civil or administrative liability.

In justified cases, the Management Board may provide the information in writing by not later than 2 (two) weeks of the date of adjournment of the General Meeting.

Company authorities do not limit information but at the same time they adhere to the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and on Public Companies, the Act on Trading in Financial Instruments, Regulation of the European Parliament and Council (EU) No 596/2014 of 16 April 2014 on Market Abuse, the Regulation on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state, as well as provisions of the Code of Commercial Companies.

The General Meeting shall be valid regardless of the number of shares represented, save as provided for by law. Resolutions of the General Meeting are adopted by an absolute majority of votes present unless provisions of law or the Articles of Association of the Bank provide otherwise.

A shareholder has the right to object to the wording of a resolution of the General Meeting and, when objecting, may present his/her arguments and justify the objection.

Each shareholder has the right to propose amendments and additions to draft resolutions placed on the agenda of the General Meeting, until discussion on the agenda item ends with a draft resolution on that proposal. Such proposals together with a brief justification should be submitted in writing.

A shareholder at the General Meeting may submit motions on procedural matters. Motions on procedural matters are considered to be motions regarding the method of proceeding or voting.

Shareholders have the right to propose their candidates to the Supervisory Board of the Bank in writing to the attention of the Chairman of the General Meeting or verbally for the record, in both cases the proposals must be accompanied by a brief justification. When proposing candidates for members of the Supervisory Board, shareholders submit documents necessary to assess whether the candidates meet the requirements of Article 22aa of the Banking Law, following in this regard the guidelines set out in the „Qualification assessment policy for members of the Supervisory Board at Bank Handlowy w Warszawie S.A." If candidates are proposed in the course of the General Meeting, the Chairman orders a procedural break to allow shareholders to review the candidate profile and submitted documents as required by the above Policy.

Shareholders have the right to view the book of minutes, as well as to request copies of resolutions certified by the Management Board.

The shareholder who voted against a resolution of the General Meeting, and after its adoption, requested that his/her dissension be recorded, the shareholder who was unreasonably not allowed to participate in the General Meeting, and the shareholders who were not present at the General Meeting, provided only that the General Meeting was convened defectively or if a resolution was adopted on a matter not included in the agenda, will have the right to bring a lawsuit seeking to repeal the resolution of the General Meeting.

Shareholders have the right to bring a lawsuit against the Company to have an unlawful resolution of the General Meeting declared invalid.

Shares may be cancelled with the shareholder's consent by way of their purchase by the Company (voluntary redemption). Shares cancellation requires a resolution of the General Meeting. The resolution should specify, in particular, the legal basis for the cancellation, the amount of compensation payable to the shareholder of the cancelled share or the justification for shares cancellation without compensation and the method of decreasing the share capital.

The Bank ensures adequate protection of minority rights within the limits allowed by the Bank's capital nature and the resulting primacy of the majority over the minority. In particular, to ensure equal treatment of shareholders, the Bank applies, inter alia, the following practices:

- General Meetings of the Bank are always held at the registered office of the Bank, which is located in Warsaw;
- media representatives are allowed to be present at General Meetings;
- according to the practice adopted at the Bank, all relevant materials for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to shareholders at least 14 days before the date of the General Meeting at the Bank's registered office and on its website;
- the General Meeting of the Bank has stable Regulations, specifying detailed rules of procedure and adoption of resolutions;
- the General Meeting is attended by members of the Supervisory Board and the Management Board, who, within their respective authority, provide explanations and information about the Bank to participants of the Meeting;
- participants of the General Meeting who object to a resolution are allowed to justify their objection. In addition, each participant of the Meeting has the option to submit his/her written statement for the record.

11. Composition of and changes to the Management Board and the Supervisory Board of the Bank, rules of procedure of the Bank's managing and supervisory bodies

11.1 Management Board

The Management Board of the Bank consists of five to nine members. The Management Board consists of: President of the Management Board, Vice Presidents of the Management Board and Members of the Management Board. At least half of all members of the Management Board should be Polish citizens. Each member of the Management Board is appointed by the Supervisory Board for an individual term of three years.

As at 31 December 2018, the Management Board consisted of:

Member of The Management Board	Scope of responsibility
Sławomir S. Sikora President of the Management Board	The President of the Management Board is responsible for: • manages the work of the Management Board, determines the procedure of substitution for members of the Management Board who are absent; • calls and chairs meetings of the Management Board; • presents the position of the Management Board to other bodies of the Bank, central and local government and the general public; • submits motions to the Supervisory Board concerning appointments and dismissals of Vice Presidents and other Members of the Management Board and determination of their remuneration; • issues internal regulations applicable to activities of the Bank and may authorize other Members of the Management Board or other employees to issue such regulations; • decides how internal audit results are to be used and notifies such decision to the audited entity; • exercises other authorizations resulting from appropriate rules adopted by the Supervisory Board; • supervises the formulation and implementation of the strategy of the Bank; • is the officer to which the internal audit department is subordinated; • supervises the risk of non-compliance of the Bank with respect to the law, internal regulations and market standards; • supervises human resources policy; • is responsible for activities to control how the Bank is perceived; • ensures a consistent organizational structure of the Bank; • supervises activities to ensure appropriate corporate governance; • supervises legal services; • supervises the area of security at the Bank with respect to protection of persons and property; and ensures the implementation of risk management principles in supervised divisions and units outside the organizational structure of a division with respect to operational risk connected with their activities.
Natalia Bożek Vice President of the Management Board	Supervises the areas of accounting and financial reporting, including financial control; Responsible for: • management accounting; • bookkeeping; • preparation of accounting policies; • coordination of activities connected with implementation at the Bank of requirements resulting from laws and regulations, as well as resolutions and recommendations of the financial supervision authority, with respect to capital adequacy; and ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.
Maciej Kropidłowski Vice President of the Management Board	Responsible for: • financial market operations, including money market transactions as well as FX market, securities and derivative transactions; • activities related to securitization; • activities related to organizing financing for investment plans, mergers and acquisitions in the scope of: - syndicated loans; - bridge financing; - debt securities; - project finance; - off-balance sheet financing; • custody activities; • ongoing cooperation with and supervision over corporate bank and commercial bank, including supervision over services provided to clients from the financial institution sector; and ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.
David Mouillé Vice President of the Management Board	Responsible for consumer banking, including the quality standard of banking services in supervised organizational units and he ensures that principles of their business-related operational risk management are implemented in such supervised organizational units.
Barbara Sobala Vice President of the Management Board	Supervises management of risks significant to activities of the bank, she is responsible for risk management system including: • credit policy of the Bank; • quality of the Bank's credit portfolio; • credit risk; • market risk; • operational risk; • coordination of activities connected with implementation at the Bank of requirements resulting from risk management regulations, including recommendations issued by supervisory authorities. Responsible for adjustments of the organizational structure of the Bank to the amount and profile of risks to which the Bank is exposed. She is a Member of the Management Board to whom violations of law and procedures and ethical standards applicable at the Bank may be reported anonymously.
Katarzyna Majewska Member of the Management Board	Responsible for the following activities of the Bank: operations and technology, real estate management, administration. Furthermore, she is responsible for global transaction services, including for: • finance management products; • trade finance products; • cash products; • liquidity management products; Also responsible for supervision over EU programs, supervision within the internal functional relationship over services for the public sector. She ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.

On 18 February 2018, Mr. Witold Zieliński resigned as Vice President of the Bank's Management Board and on 31 March 2018, Mr. Czesław Piasek resigned as Member of the Bank's Management Board.

The Management Board operates on the basis of generally applicable laws, the Articles of Association and the Management Board Regulations. The Management Board Regulations define the scope and mode of operations of the Management Board as well as the procedure for adopting resolutions.

During 2018, the following committees consisting of Management Board Members were active:

1) Risk and Capital Management Committee,
2) Assets & Liabilities Committee (ALCO) of the Bank,
3) Business Risk, Control and Compliance Committee for Corporate Banking Sector, Risk Management Sector and Management and Support Sector,
4) Business Risk, Control System and Compliance Committee for the Consumer Banking Sector,
5) Bonus Committee,
6) New Products Committee.

President of the Management Board convenes and chairs meetings of the Management Board. President of the Management Board may set fixed dates for holding meetings.

Work organization at the Management Board is ensured by the Corporate Services Office at the Legal Division of the Company, hereinafter referred to as the Corporate Services Office.

Management Board members have an obligation to attend Management Board meetings. An anticipated absence of a Management Board member at a meeting should be reported to the Corporate Services Office and must be excused.

In addition to members, meetings of the Management Board are attended by: Director of the Corporate Services Office or his designee, Director of the Compliance Department, Head of the Legal Division, Director of the Audit Department.

The person heading the Audit Department and the person heading the Compliance Department participate in Management Board meetings if the subject of the meeting involves issues related to: internal control, internal audit or compliance, consideration by the Management Board of matters related to internal control operation at the Company. At the request of Management Board members, Company employees or persons from outside the Company relevant to the issue considered may participate in meetings. Chairman of the meeting may order proceedings without the participation of persons who are not members of the Management Board.

Resolutions of the Committee are valid provided that at least one half of the permanent members of the Committee are present. Resolutions of the Management are adopted by an absolute majority of votes.

The Management Board adopts resolutions in an open vote. Chairman of the meeting may order voting by ballot at his own initiative or at the request of a Board member. A resolution of the Management Board is effective as of the date of its adoption unless it provides for a different effective date.

In justified cases, a resolution of the Management Board may be adopted through circulation (in writing) based on a decision of the President of the Management Board or the member substituting for the Management Board President. Draft resolutions to be adopted through circulation are submitted for approval to all members of the Management Board and become legally binding after being signed by an absolute majority of Management Board members, including the President of the Management Board or the member substituting for the Management Board President. The effective date of a resolution is the date it is signed by the Management Board member who signs the resolution already signed by at least half of all members of the Management Board.

If even one of the Management Board members raises an objection to adoption of a resolution through circulation, the draft resolution should be presented at the next Management Board meeting. A resolution may be adopted through circulation provided that all members of the Management Board have been given a notice of its adoption. Resolutions adopted through circulation shall be added to the minutes of the next meeting of the Committee.

With the consent of the President of the Management Board, members of the Management Board who are absent may participate in the meeting and vote through means of direct remote communication in a manner which enables simultaneous real-time communication and mutual identification among all Management Board members participating in the meeting or voting (e.g. videoconference, teleconference).

Minutes are drafted of each Management Board meeting. Drafting of the minutes is the responsibility of the Corporate Services Office. The minutes should include:

1) agenda;
2) names of persons taking part in the meeting;
3) information on excused absences or reasons for absences of Management Board members at the meeting;
4) wording of the resolutions adopted;
5) the number of votes cast in favor of individual resolutions and dissensions;
6) the organizational entity or unit, or the name of the person assigned with responsibility for implementing the resolution, and
7) deadline for implementation of the resolution.

The minutes are signed by all members of the Management Board present at the meeting, immediately upon receipt.

The Management Board provides the Supervisory Board with the following financial information:

1) upon compilation but no later than 30 (thirty) days after the end of each month, monthly and periodic (covering the period from the beginning of the year until the end of the previous month) financial information, together with its comparison against the budget adopted in the annual plan, and against the previous year;
2) immediately upon compilation but no later than 120 (one hundred and twenty) days after the end of each accounting year, individual and consolidated annual financial statements prepared in accordance with International Financial Reporting Standards, audited by the Company's auditor;
3) immediately upon compilation but in any case no later than before the end of each year, a draft annual plan for the next accounting year, and
4) immediately, other available financial data related to Company operations and its financial condition, as well as the operations and financial condition of Company subsidiaries, which a member of the Supervisory Board may reasonably request.

11.2 Supervisory Board

The Supervisory Board consists of five to twelve members, each appointed by the General Meeting for a three-year joint term. By Resolution No. 6 of 5 December 2006, the Extraordinary General Meeting of the Bank, on the basis of Article 14.2 of the Articles of Association, established the number of Supervisory Board members to be at least 8. In addition, at least half of the Supervisory Board members, including its Chairman, must be Polish citizens. The Supervisory Board consists of independent members.

As at the date of signing this report on operations, the Company's Supervisory Board consisted of:

Member of Supervisory Board	Professional experience
Andrzej Olechowski Chairman of the Supervisory Board	Mr. Andrzej Olechowski is a member of the Board of Directors of Euronet, of the Supervisory Board of Play Communications S.A., of the advisory committee of Macquarie European Infrastructure Funds and a member of the Board of Trustees, the European Council on Foreign Relations. In the past, he served as Minister of Finance and Minister of Foreign Affairs of the Republic of Poland, and ran as a candidate for President of the Republic of Poland. He is a member of a number of non-governmental organizations, including chairman of the Polish group, The Trilateral Commission. He is an author of publications on international economic and political relations. Andrzej Olechowski, Ph.D., is a Professor of Vistula University. In 1991-1996 and 1998-2000, he already served as member of the Supervisory Board of Bank Handlowy w Warszawie S.A as its chairman. He was re-appointed to the Supervisory Board on 25 June 2003. Since 23 July 2012, he has served as the Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Frank Mannion Deputy Chairman of the Supervisory Board	Mr. Frank Mannion currently serves as the Citi Chief Financial Officer for Europe, Middle East and Africa (EMEA). Within his new function, which he assumed in January 2011, he is responsible for a group of over 1,000 employees throughout the Region. Mr. Frank Mannion began his professional career in Ireland, and then moved to London, where he worked for PricewaterhouseCoopers. He started working at Citi in 1989 in a planning and analysis team in the UK. During his career, he has held many financial positions, including Technology Finance Manager and the Head of Product Control at CMB EMEA. In 2008, he became Citi Regional Franchise Controller for Europe, Middle East and Africa (EMEA), where he was responsible for a group of over 800 employees in various areas. Previously, he managed the areas of Product Control, Controllers and Regulatory Reporting as CMB EMEA Regional Controller. Frank Mannion graduated from the National University of Ireland in Galway, earning a degree in commerce. He has also earned the title of Chartered Accountant. Since 28 June 2010, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Shirish Apte Member of the Supervisory Board	Mr. Shirish Apte served as Co-Chairman of Citi Asia-Pacific Banking. In 2009-2011, he served as CEO at Citi Asia Pacific, with responsibility for South Asia covering countries such as: Australia, New Zealand, India and countries members of the Association of Southeast Asian Nations (ASEAN). He was a member of the Citi Executive Committee and Operating Committee. Mr. Shirish Apte has worked at Citi for over 32 years. He has served, among other things, as CEO for Central and Eastern Europe, Middle East and Africa (CEEMEA), and previously as Country Manager he was responsible for Citi operations in Poland and served as Vice President of Bank Handlowy w Warszawie S.A. Mr. Shirish Apte moved from India to London in 1993, where he took the position of Senior Risk Manager for the CEEMEA Region. Then, he served as Head of Corporate Finance and Investment Bank in the CEEMEA Region, which included India. Mr. Shirish Apte earned a diploma of Chartered Accountant from the Institute of Chartered Accountants in England and Wales and a bachelor's degree in commerce. Mr. Shirish Apte also has an MBA from London Business School.
Marek Belka Member of the Supervisory Board	Professor Marek Belka served twice as Deputy Prime Minister, and between May 2004 and October 2005, he was the Prime Minister of the Polish Government. In the years 2010-2016, Marek Belka served as President of the National Bank of Poland and Chairman of the Monetary Policy Council. Between November 2011 and October 2015, he was chairman of the Development Committee at the World Bank and the International Monetary Fund. In January 2011, he was elected member of the Steering Committee of the European Systemic Risk Board (ESRB). Professor Marek Belka has also held a number of high-level positions on the international stage. He served as head of the International Coordination Council in Iraq and as economic policy director in the Iraqi Provisional Coalition in Iraq (2003-2004). In 2006-2008, he was executive secretary of the United Nations Economic Commission for Europe (UNECE) in Geneva. In November 2008, he became head of the European Department of the International Monetary Fund.
Grzegorz Bielicki Member of the Supervisory Board	Mr. Grzegorz Bielicki has a Master's Degree in Economics, and is an expert in internal audit, finance and accounting. In 2013-2016, he headed the Internal Audit Department of the National Bank of Poland. In that capacity, he reported directly to the NBP President and took part in all Management Board meetings of the Polish central bank. He was actively involved in international cooperation, both within and outside the EU. In particular, he organized technical assistance for the National Bank of the Republic of Belarus in the area of internal audit. He was also a member of the Internal Audit Committee under the auspices of the European Central Bank. In 2008, Mr. Grzegorz Bielicki assumed the position of Head of the Internal Audit Department at Bank BPH S.A., GE Group (GE Capital). In that role, he was responsible for preparing a merger of internal audit functions in two local GE subsidiary banks (Bank BPH and GE Money Bank), which merged successfully in January 2010. At the same time, he was responsible for implementing Group's internal audit standards, methodologies and tools for BPH, and then for the newly created bank following the merger. He was also responsible for cooperating with financial market regulators and for coordinating inspections carried out at the bank. In 2002-2008, he served as Director of the Banking System Analysis Office in the General Inspectorate of Banking Supervision (GINB) at the NBP. In that capacity, his responsibilities included: daily supervision, microanalysis, legal and supervisory measures in relation to commercial banks in Poland, as well as macroanalysis of the banking system. While in that role, Mr. Grzegorz Bielicki served as member of the Banking Supervision Committee under the auspices of the European Central Bank, as well as member of the Banking Supervision Group for Central and Eastern Europe (BSCEE Group). In 1998, he joined Bank Handlowy w Warszawie S.A. as Head of the Accounting Department, with responsibilities including regulatory and financial reporting, including compilation of financial statements in accordance with IAS, financial reports for the Securities and Exchange Commission, the central bank, the Central Statistical Office and tax authorities. From June 2000, in addition to his existing responsibilities, he was also responsible for accounting policy complying with US GAAP and for reporting according to US GAAP. Mr. Grzegorz Bielicki began his professional career at KPMG Polska, at the Banking and Finance Department, where he audited financial statements, reviewed loan portfolios and performed due diligence at numerous top Polish banks. Mr. Grzegorz Bielicki has a Master's Degree in Economics from the Foreign Trade Department of the Warsaw School of Economics. He also studied abroad at the Limburg Business School (University of Limburg), where he interned under the Tempus program. He has high qualifications in finance and accounting, confirmed by ACCA (Association of Chartered Certified Accountants) exams.

Igor Chalupec Member of the Supervisory Board	Mr. Igor Chalupec: manager, financier, founder of ICENTIS Capital which specializes in capital market transactions; in 2013-2018, President of the Management Board of RUCH S.A., one of the largest press distributors in Poland. In 2004-2007, he served as President of the Management Board of PKN ORLEN S.A., the largest company in the refining and petrochemical sector in Central Europe. In 2003-2004, he held the position of deputy finance minister and deputy chairman of the Polish Financial Supervision Authority; he was also a member of the European Financial Committee in Brussels. In 1995-2003, he served as Vice President of the Management Board of Bank Pekao SA (UniCredit Group). Founder and CEO of Centralny Dom Maklerski Pekao SA (in 1991-1995), the largest brokerage company in Poland; long-time member of the Warsaw Stock Exchange (from 1995 to 2003). Mr. Igor Chalupec serves on the Supervisory Board of Budimex S.A. (Ferrovial Agroman Group), since 2007, he is also a member of the Polish Business Council, Program Board of the Economic Forum (Polish Economic Forum in Krynica), Executive Club Program Council, member of the Council of the Institute of Public Affairs Foundation, member of the Main Board of the Polish Institute of Directors, member of the Lesław A. Paga Award Committee, Vice President of the Polish Bridge Association, member of the Women's Workshop Foundation Council. Founder and Chairman of the Council of the Evangelical Educational Society Foundation. Co-author of Rosja, ropa, polityka, czyli o największej inwestycji PKN ORLEN, a book on the purchase of a Lithuanian refinery in Mazeikiai. Mr. Igor Chalupec is a winner of numerous awards and distinctions, including: Manager Award (2012), Lesław A. Paga Award (2007), VECTOR (2006) and HERMER awards (1996). Since 18 June 2009, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Jenny Grey Member of the Supervisory Board	In February 2016, Ms. Jenny Gray assumed the position of Citi HR Head for the EMEA Region. Previously, from October 2012, Ms. Gray served as Head of Public Relations for the EMEA Region and was responsible for protecting and strengthening Citi's reputation in the EMEA Region. Her responsibilities included media relations, internal and external communications, brand and community development. Ms. Jenny Gray has 24 years of experience in communications. She joined Citi in October 2012, after four years of service in the British government administration, most recently, at the UK Prime Minister's headquarters as Executive Director for Government Communication. She was Head of Profession and managed 5,000 communication employees of the entire government sector. In previous years, she worked in the public sector where she served as Director of Communications and Social Marketing, including in the National Health Service and on the Audit Committee. She was also Corporate and International Director at Cancer Research UK, the largest charity foundation in the United Kingdom, where she set up the first unit responsible for public policy and support. Ms. Jenny Gray began her professional career in advertising and then became a public relations consultant specializing in reputation and crisis management. She has advised many international clients, including corporations such as McDonald's, Toyota, BP and Allied Domecq. She earned a Master's Degree in Social Psychology from the London School of Economics and degrees with honors in English and English literature from the Durham University. Since 21 June 2016, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Marek Kapuściński Member of the Supervisory Board	Mr. Marek Kapuściński graduated from the Faculty of Foreign Trade at the Main School of Planning and Statistics in Warsaw (currently, the Warsaw School of Economics) and completed postgraduate studies at SEHNAP / Stern School of Business at New York University. He had been associated with the Procter & Gamble company for 25 years till September 2016. He is co-creator of company's success on the Polish and Central European market, including numerous standards of the way the Polish market has functioned since the time of transformation. They encompass standards for the cosmetics industry, business ethics, social responsibility, or self-regulation in the field of advertising. Since July 2011, he has performed the function of General Director and Vice President (i.e. CEO) for 9 Central Europe markets which are of key importance for P&G, and since January 2007 for Poland and the Baltic States. He is the first Pole and a person from Central Europe at the managerial level in this global corporation, as well as an active member of the company's regional management and its Global Business Leadership Council, which unites all 250 top executive managers. An experienced CEO and leader, an expert in strategy, innovation and management, an active creator of standards constantly adapting to the new challenges of brand management, a shopper of marketing, sales and communication in the age of digitization and omni-channel. The first Pole and Central European to be promoted at P&G to the positions of Brand Manager, Marketing Manager and Marketing Director; also for 5 years, responsible for developing a number of brands in the Region of Central and Eastern Europe, Middle East and Africa. Co-author of the strategy and leading market position of numerous well-known brands in the P&G portfolio. In recognition of his contribution to building brands and Polish advertising standards and practices, he was awarded the title of "20 Year Marketer" by Media Marketing Polska. Lecturer and speaker, juror, participant of discussion panels. Currently, he sits on Supervisory Boards of companies and public benefit organizations, and advises their managements. Privately, he invests in start-ups and donates for the development of young Polish culture and art. Since 29 September 2016, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Marc Luet Member of the Supervisory Board	Mr. Marc Luet is Head of the Region including Russia, Ukraine, Kazakhstan, Turkey, Israel and Poland. Mr. Marc Luet also serves as President and Chairman of the Board of Directors of AO Citibank. From 2014 until recently, Mr. Marc Luet was the Head of Citi for Central and Eastern Europe. Previously, for three and a half years, he served as Head of Citicorp Retail and Corporate Banking for Europe, Middle East and Africa (EMEA) and as temporary Head of the Global Consumer Marketing & Internet Office, GCMIO, which he assumed in June 2010 after returning to work at Citi. Mr. Marc Luet has over 20 years of experience in consumer banking and credit cards. Previously, he worked for Visa, where in 2008-2010, he served as President of the CEMEA Region covering 80 countries. Mr. Marc Luet was responsible for strategy, marketing, sales, finances, legal aspects, corporate communication and regulatory contacts in the region. He also served as a member of the Visa Inc. Operating Committee. Previously, Mr. Marc Luet worked at Fortis Group as the CEO of the Consumer for Finance & Retail International (in 2005-2008) and as the CEO of Egg France (in 2002-2005). Prior to 2002, for 12 years he worked at Citi, where he held a number of positions in the area of marketing, risk and operations in Europe and the US, and then became Head of Consumer Banking in Hungary and Belgium. Mr. Marc Luet holds a bachelor's degree in economics from Panthéon Sorbonne University. He is also a graduate of the Institute of Political Sciences in Paris (Institut d'Etudes Politiques de Paris). He also earned a Master of Business Administration (MBA) degree from the Tuck School of Business Administration, Dartmouth College. Mr. Marc Luet is a member of the Board of the Russian-American Chamber of Commerce.
Anand Selvakesari Member of the Supervisory Board	Mr. Anand Selvakesari has been with Citi since 1991. From 2018, he has served as Head of Consumer Banking in the US. Previously, in 2015-2018, he was the Head of Citi Consumer Banking in the Asia-Pacific Region, where he was responsible for consumer banking and corporate banking throughout Asia. Prior to taking up his current position, from December 2013, Mr. Anand Selvakesari was the Head of Consumer Banking for the region covering countries-members of the Association of Southeast Asian Nations (ASEAN) and India. In that capacity, he was responsible for consumer banking in the ASEAN Cluster which includes Singapore, Malaysia, Indonesia, the Philippines, Thailand, Vietnam and India. Earlier, in 2011-2013, Mr. Selvakesari was the Head of Consumer Banking in India, managing consumer banking, credit cards, unsecured loans, banking for non-Indian nationals and corporate banking in India. Under Mr. Anand Selvakesari's direction the areas he managed became market leaders, enjoying record brand preference among clients and cooperating with other market leaders in implementing pioneer solutions. Prior to taking up his post in India, in 2008-2011, Mr. Anand Selvakesari was the Head of Consumer Banking in Citi China. The business managed by Mr. Selvakesari reported multiple growth, becoming the industry leader in innovation, and introducing many new products on the market. Mr. Anand Selvakesari was also the Head of Consumer Banking in Taiwan in 2004-2006, and for 8 years, he served in regional roles in Singapore working at various positions in the areas of investment banking, wealth management and consumer banking between 1996 and 2004. Mr. Anand Selvakesari has an MBA (finance and marketing) and an engineering (mechanical engineering) degree obtained in India. Since 21 June 2016, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.

Stanisław Sołtysiński Member of the Supervisory Board	Mr. Stanisław Sołtysiński: professor of legal sciences, engaged in academic activities as a professor of legal sciences associated with the Adam Mickiewicz University in Poznań (where he also served as the Dean of the Faculty of Law and Administration). He lectured as a visiting professor at the Pennsylvania Law School in Philadelphia, as well as at the College of Europe in Bruges, the Max Planck Institute in Munich and the International Law Academy in The Hague. He is a member of many academic associations and organizations. He is a correspondent member of the Polish Academy of Arts and Sciences and a member of the UNIDROIT Board of Directors. He co-authored the Commercial Companies Code. Professor Sołtysiński is also involved in legal practice as a partner in "Sołtysiński, Kawecki i Szlęzak" Doradcy Prawni, a law firm. Professor Sołtysiński has been a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 26 March 1997, and its Chairman between 30 June 2000 and 20 June 2012. Since 21 June 2012, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Stephen R. Volk Member of the Supervisory Board	Mr. Stephen R. Volk is the Vice Chairman of Citigroup Inc., responsible for matters related to both senior-level management and investment banking. He is a member of the Citigroup Executive Committee. Mr. Volk has been associated with Citigroup since September 2004. Until then, he served as Chairman of Credit Suisse First Boston, where he worked closely with the President of the Management Board on strategic management and key customer issues. He joined Credit Suisse First Boston in August 2001, moving from Shearman & Sterling, a New York law firm, where he was a Senior Partner since 1991. While at Shearman & Sterling, Mr. Volk was a legal counsel to numerous corporations, including Citicorp. Among the many areas in which Mr. Volk's firm advised Citicorp, there was also restructuring of the Citicorp's Latin American debt portfolio. Significant transactions in which Mr Volk played a key role include mergers of Glaxo and SmithKlein, Viacom-Paramount, Viacom-CBS and Vivendi-Universal-NBC. He joined Shearman & Sterling in 1960, after graduating from Dartmouth College and Harvard Law School, becoming a partner in 1968. Mr. Volk is a Director at Continental Grain Company, and also a former Director at Consolidated Edison, Inc. and Trizec Hahn Properties. He is also a member of the Council on Foreign Relations, the Harvard Law School Dean's Advisory Board and a member of the American Bar Foundation. Since 20 November 2009, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.

The Supervisory Board operates on the basis of generally applicable laws, the Articles of Association and the Supervisory Board Regulations.

The powers of the Supervisory Board, in addition to the rights and obligations provided for by law, include resolutions on the following matters:

1) appointing and recalling the President of the Management Board in secret voting;
2) appointing and removing, in secret voting, Vice Presidents and other members of the Management Board of the Bank.";
3) setting the terms of contracts governing employment relationships or other legal relationships between Management Board members and the Bank;
4) authorization for opening or closing branch offices abroad;
5) adoption of the Supervisory Board Regulations and approval of the following documents drafted by the Management Board:
   a. regulations of the Management Board of the Bank,
   b. rules for managing special funds set up with net profits;
6) prior authorization for transactions disposing of the Bank's fixed assets worth more than 1/10 of the Bank's share capital;
7) selection of an audit firm to audit or review financial statements;
8) authorization for recruitment and dismissal (after prior hearing) of the person heading the Audit Department and the person heading the compliance unit, at the request of the Bank's Management Board;
9) authorization for the Bank to enter into a material contract with a shareholder holding at least 5% of the total votes at the Bank or a related party of the Bank;
10) supervision over implementation of the Bank's management system and assessment of the adequacy and effectiveness of that system, including supervision over adoption of the risk management system and annual assessment of the adequacy and effectiveness of that system, and supervision over adoption of the internal control system and annual assessment of the adequacy and effectiveness of that system, including assessment of the adequacy and effectiveness of the control function, compliance unit and the Audit Department, and assessment of the effectiveness of compliance risk management at the Bank;
11) approval of the Bank's strategy as well as the rules of prudent and stable management of the Bank;
12) approval of the basic organizational structure of the Bank, aligned with the size and profile of the risk involved, and determined by the Bank's Management Board;
13) approval of the acceptable general risk level of the Bank;
14) approval of the Bank's compliance policy;
15) approval of the Bank's internal procedures for internal capital assessment, capital management and capital planning;
16) approval of the Bank's information policy;
17) approval of the internal control procedure;
18) approval of the remuneration policy;
19) approval of the risk management strategy and determination of the rules for reporting to the Supervisory Board on the types and volumes of risk in Bank's operations;
20) approval of the regulations for the compliance unit and the Audit Department;
21) approval of the criteria developed by the Management Board for assessing adequacy and effectiveness of internal control;
22) approval of the rules for classifying irregularities detected by internal control;
23) approval of the compliance unit's annual action plan;
24) approval of the principles of cooperation between the compliance unit and the Audit Department with corresponding units at the parent entity and subsidiaries;
25) approval of the rules for the annual reporting by the compliance unit on the fulfillment of its tasks to the Bank's Management Board and the Supervisory Board;
26) approval of the rules of cooperation between the Audit Department and the statutory auditor;
27) approval of the Audit Department's business strategy;
28) approval of the audit rules prepared by the Head of the Audit Department, which ensure objective performance of responsibilities by the Audit Department, and the rules for transferring employees from other organizational units to the Audit Department, improving qualifications, identifying the number of internal auditors with professional certification and periodic performance assessment of internal auditors;
29) approval of the remuneration of the Head of the Audit Department;
30) approval of the strategic (long-term) and operational (annual) audit plans and their revisions;
31) approval of the remuneration of the Head of the Compliance Department, the authority which may be assigned, by a resolution, to the Audit Committee;

32) authorization for every cooperation in audits between the Audit Department with the corresponding unit at the parent entity, the authority which may be assigned, by a resolution, to the Audit Committee;

33) approval of the rules for reporting by the Audit Department to the Management Board and the Supervisory Board.

Based on the Banking Law Act, the Supervisory Board approves the internal division of responsibilities within the Management Board as well as the remuneration policy in effect at the Company.

The Supervisory Board also has the authority to suspend, for important reasons, individual or all members of the Management Board, as well as second Supervisory Board members to serve, temporarily for not more than three months, in the capacity of those Management Board members who have been recalled, submitted resignation or for other reasons are unable to serve.

Members of the Supervisory Board carry out their responsibilities in person. The Supervisory Board carries out its activities collegially, with each member of the Supervisory Board being entitled to receive information necessary to perform his/her responsibilities from the Management Board. The meetings of the Supervisory Board are held on a quarterly basis, as a minimum. The meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board or, in his/her absence, by Deputy Chairman of the Supervisory Board, on his own initiative or at a request of another Supervisory Board member or at a request of the Management Board of the Company. The Chairman of the Supervisory Board may set fixed dates for holding meetings of the Supervisory Board. A notice convening a meeting, including its agenda and materials for the meeting, will be sent by the Supervisory Board Secretary to Supervisory Board members at least 7 (seven) days before the date of the meeting.

The Supervisory Board meets on the day of the General Meeting which approves the Management Board's report on Company operations and the financial statements for the last full accounting year of service of the Management Board member, during which mandates of Management Board members expire, in order to elect new members of the Management Board.

The Supervisory Board adopts an annual resolution on the report on Supervisory Board operations, in which the Supervisory Board assesses the situation of the Company, the work of the Supervisory Board, the internal control system and the management of significant risks at the Bank, as well as the results of assessment of the Company's financial statements, including Management Board's proposals as to profit distribution. The Supervisory Board submits that document to the General Meeting for approval.

Members of the Supervisory Board may participate in the adoption of resolutions by casting their votes in writing through another member of the Supervisory Board. The Supervisory Board may adopt resolutions in writing or by means of direct remote communication.

Meetings of the Supervisory Board are chaired by its Chairman, and in his absence, one of the Vice Chairmen of the Supervisory Board, and in the absence of both, the Supervisory Board member elected by the other members.

Resolutions of the Supervisory Board are valid provided that at least one half of the members of the Supervisory Board are present at the meeting. Resolutions of the Supervisory Board are adopted by an absolute majority of votes. Without the consent of the majority of independent Supervisory Board members, no resolutions may be adopted on the following matters:

1) payments for any reason from the Company or any entities related to the Company to members of the Management Board;

2) authorization for the Company or its subsidiary to enter into any significant agreement with an entity related to the Company, a member of the Supervisory Board or the Management Board, or their related parties;

3) selection of an auditor to audit the Company's financial statements.

Each member of the Supervisory Board has an obligation to immediately advise the remaining members of any existing conflict of interests and to refrain from taking part in a discussion and voting on a resolution on the matter involving such conflict.

The Supervisory Board adopts resolutions in an open vote, with the exception of appointment and recall, by a secret ballot, of the President of the Management Board, and appointment and recall, by a secret ballot, of Vice Presidents and other members of the Company Management Board. Chairman of the meeting may order voting by ballot on other matters, at his own initiative or at the request of a Supervisory Board member.

A resolution of the Supervisory Board is effective as of the date of its adoption unless it provides for a different effective date.

Minutes of Supervisory Board meetings will be drawn up, containing the agenda, names of the Supervisory Board members present, the number of absent members at the meeting together with the reason for their absence, the number of votes cast on particular resolutions, dissensions, full wording of adopted resolutions. A list of Supervisory Board members present at the meeting and other persons participating in the meeting forms an attachment to the minutes. The minutes are signed by all members of the Supervisory Board present at a given meeting. Minutes of Supervisory Board meetings for the duration of its term are collected in a separate folder kept by the Company.

Supervisory Board meetings, except for those directly related to the Management Board, are attended by members of the Management Board. At the request of Supervisory Board Chairman or at the request of the Management Board of the Company, meetings may be attended by Company employees or persons from outside the Company relevant to the issue considered. During the Supervisory Board's consideration of issues related to the operation of internal control at the Company, the person heading the Audit Department may also take part in Supervisory Board meetings. In particularly justified circumstances, the Chairman of the Supervisory Board may order a meeting without the participation of persons who are not members of the Supervisory Board, even if the above provisions allow otherwise.

Supervisory Board Committees

Supervisory Board Permanent Committees are:

1) Audit Committee,

2) Nomination and Remuneration Committee,

3) Risk and Capital Committee.

The Supervisory Board has the right to adopt a resolution on the appointment of committees other than those specified above and composed exclusively of members of the Supervisory Board. The relevant resolution of the Supervisory Board sets forth the scope of responsibilities of such a committee.

In line with the aforementioned procedure, in 2003 the Supervisory Board appointed the **Strategy and Management Committee** responsible for ongoing analyses of all issues related to the activities performed by the Bank's governing bodies as well as the streamlining of their functioning. The Committee is composed of: Marek Belka acting as Chair, Stanisław Sołtysiński acting as Vice-Chair, and Shirish Apte, Grzegorz Bielicki, Igor Chalupec, Jenny Grey, Marek Kapuściński, Frank Mannion, Marc Luet, Andrzej Olechowski, Anand Selvakesari and Stephen Volk acting as Committee members.

Audit Committee

The Audit Committee is composed of the following members:

1) Grzegorz Bielicki – Chairman of the Committee;

2) Frank Mannion – Vice Chairman of the Committee;

3) Shirish Apte – Member of the Committee;

4) Igor Chalupec – Member of the Committee;

5) Marek Kapuściński – Member of the Committee.

The Audit Committee is a permanent committee of the Supervisory Board that met four times in 2018.

The authority and responsibilities of the Audit Committee include monitoring of financial reporting, monitoring of the effectiveness of: internal control, internal audit and risk management systems, monitoring of audit activities and monitoring of the independence of the statutory auditor and the entity authorized to audit financial statements.

Members of the Committee exercise their powers on the basis of Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each successive calendar year is submitted by the end of the first quarter of the following year. The reports are made available to shareholders through publication on the Bank's website. At the next following meeting of the Supervisory Board, the Committee reports to the Supervisory Board on each of the Committee meetings and the Committee's recommendations discussed at its meetings.

The Audit Committee should include two independent members, one of them should be the Committee Chairman. At least one member of the Committee should meet the independence conditions referred to in Article 56.3 items 1, 3, 5 of the Act on statutory auditors and their self-regulatory body, entities authorized to audit financial statements and public supervision, and have the skills of the industry in which the Company operates.

Members of the Audit Committee who meet the statutory independence criteria are: Grzegorz Bielicki, Igor Chalupec and Marek Kapuściński.

The following members of the Audit Committee have knowledge and skills related to accounting or audit of financial statements:

1) Grzegorz Bielicki – is an expert in internal audit, finance and accounting. In 2013-2016, he headed the Internal Audit Department of the National Bank of Poland. Grzegorz Bielicki began his professional career at KPMG Polska, at the Banking and Finance Department, where he audited financial statements, reviewed loan portfolios and performed due diligence at numerous top Polish banks. He has a master's degree in economics obtained at the Foreign Trade Department of the Warsaw School of Economics;
2) Frank Mannion – graduated from the National University of Ireland in Galway, earning a degree in commerce. He also has the title of Chartered Accountant;
3) Shirish Apte earned a diploma of Chartered Accountant from the Institute of Chartered Accountants in England and Wales and a bachelor's degree in commerce. Mr. Shirish Apte also has an MBA from London Business School.

The following members of the Audit Committee have the knowledge and skills in the field of banking and finance in which the Company operates:

1) Grzegorz Bielicki – due to his education and professional experience, including work at the NBP and KPMG;
2) Frank Mannion – due to his education, the title of Chartered Accountant and professional experience which includes many years of service at managerial positions in Citi;
3) Shirish Apte – due to his education, a diploma of chartered accountant obtained at the Institute of Chartered Accountants in England and Wales, and professional experience which includes many years of service at managerial positions in Citi;
4) Igor Chalupec – due to his education and professional experience, including service in the capacity of Vice President of the Management Board of Bank Pekao S.A.

Meetings of the Audit Committee are convened by the Committee Chairman at his own initiative or at the request of a Committee member. If for any reason the Committee Chairman is unable to convene a meeting, it will be convened by the Deputy Chairman. Meetings are also convened at the request of a Committee member or the Supervisory Board Chairman.

A notice convening a meeting, setting out the agenda and materials for the meeting, are sent to members of the Audit Committee by the Committee Secretary who is the Secretary of the Supervisory Board. Meetings of the Audit Committee are held at least four times a year, on the dates set by the Chairman in consultation with the Deputy Chairman of the Committee.

At least once a year, the Audit Committee meets:

1) with the Head of the Audit Department without participation of the management;
2) with the certified auditor of the Company without participation of the management;
3) by its own.

The Audit Committee may, at its discretion, also meet with individual members of the Company's management.

The agenda of the Audit Committee's meeting includes fixed items as well as matters considered on request. The list of fixed items considered at Committee meetings is determined by a resolution of the Committee. The Supervisory Board and individual members of the Committee and other members of the Supervisory Board have the right to put forward matters at Committee meetings.

The Secretary of the Audit Committee, on the basis of materials received, prepares a draft agenda of the meeting together with a list of invitees, and forwards it to the Committee Chairman and Deputy Chairman for approval. The draft agenda accepted by the Committee Chairman and Deputy Chairman is then forwarded, along with the materials, to Committee members.

All members of the Audit Committee are obliged to participate in the meeting of the Committee. The Committee member who is unable to attend a meeting should notify the Committee Secretary seven days before the fixed date of the meeting. The Committee may seek the advice of advisers and invite Company employees or other persons to its meetings to discuss or examine matters raised by the Committee. Persons invited by the Committee Chairman or Deputy Chairman take part in the Committee meeting or its relevant part.

The Chairman of the Audit Committee chairs Committee meetings. If the Chairman of the Committee is not present, the meeting is chaired by the Deputy Chairman of the Committee. The Committee Chairman may, in consultation with the Deputy Chairman, decide to remove an item from the agenda, in particular in order to rectify a motion or to obtain an opinion.

Resolutions of the Audit Committee are adopted by the absolute majority of votes of the members of the Committee present at the meeting.

The Chairman of the Audit Committee may, in consultation with the Deputy Chairman, decide to consider a matter in writing

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is composed of:

1) Andrzej Olechowski – Chairman of the Committee;
2) Jenny Grey – Vice Chaiperson of the Committee;
3) Stanisław Sołtysiński – Member of the Committee;
4) Marc Luet – Member of the Committee.

The Nomination and Remuneration Committee is a permanent committee of the Supervisory Board.

The Nomination and Remuneration Committee is the Supervisory Board's advisory body, and its members exercise their authority on the basis of Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each successive calendar year is submitted by the end of the first quarter of the following year. The reports are made available to shareholders through publication on the Bank's website. At the next following meeting of the

Supervisory Board, the Committee reports to the Supervisory Board on each of the Committee meetings and the Committee's recommendations discussed at its meetings.

The Nomination and Remuneration Committee has, among others, the authority to:

1) review and monitor the remuneration policies adopted at the Bank and support the Bank authorities in supervising, shaping and implementing those policies, their validity, consistency with the practice and processes in place at the Bank and their impact on the Bank's risk profile,
2) assess the mechanisms and systems in place at the Bank in order to ensure that the remuneration policy adopted at the Bank takes into account all types of risk, and liquidity and capital levels, complies with the principles of, and supports sound and effective risk management, and is consistent with the Bank's strategy, objectives, corporate culture and values as well as long-term interests of the Bank, including assessment of the need to adjust remunerations for ex-post risk,
3) analyze possible scenarios to examine how the remuneration policies adopted at the Bank and the remuneration practice respond to external and internal events, and perform back-testing of the criteria used to determine remuneration levels and to adjust remunerations for ex-ante risk on the basis of actual risk-based results,
4) recommend candidates for the Management Board, taking into account the necessary knowledge, competence and experience of the Management Board as a whole, that are necessary to manage the Bank, and ensuring diversity on the Management Board,
5) identify the scope of duties for a candidate to the Management Board, as well as the requirements in terms of knowledge and competence, and the expected time commitment necessary to serve in that capacity,
6) identify the target representation of the gender underrepresented on the Management Board and develop a policy of diversity on the Management Board with the aim of achieving that target,
7) make periodic evaluation, at least once a year, of the structure, size, composition and effectiveness of the Management Board and recommend changes in that regard to the Supervisory Board,
8) make periodic evaluation, at least once a year, of the knowledge, competence and experience of the Management Board as a whole and of individual Management Board members, and inform the Management Board of the evaluation results,
9) review periodically the Management Board's policy on selection and appointment of Bank managers and present recommendations in that regard to the Management Board,
10) assess, based on market conditions, the remunerations received by members of the Management Board,
11) assess the remuneration paid to members of the Bank's Management Board as compared to their duties and performance,
12) submit recommendations for remuneration of Management Board members to the Supervisory Board, each time prior to its determination or revision,
13) review and monitor variable remuneration components of the persons whose professional activities have a significant impact on the Bank's risk profile, including in particular those responsible for risk management, management of the compliance unit, management of the internal audit unit, and key persons, as identified in the Employee Remuneration Policy of Bank Handlowy w Warszawie S.A.,
14) conduct preliminary assessments of qualifications of candidates for members of the Supervisory Board and prepare recommendations whether or not to appoint them,
15) conduct preliminary assessments of qualifications of members of the Supervisory Board and prepare recommendations if a re-assessment is required.

The Committee adopts the Management Board diversity policy, taking into account a wide range of characteristics and competences required from persons serving as members of the Management Board.

The Committee consists of at least three members of the Supervisory Board. The number of independent members must be at least the same as the number of dependent members, with the Chairman being an independent member. All Members of the Committee, including its Chairman and Deputy Chairman, are elected by the Supervisory Board in an open voting.

Meetings of the Nomination and Remuneration Committee are convened by the Committee Chairman at his own initiative or, if the Committee Chairman is unable to do so for any reason, by the Deputy Chairman. Meetings are also convened at the request of a Committee member or the Supervisory Board Chairman. Committee meetings are held at least twice a year, on the dates set by the Committee Chairman. The agenda of the Nomination and Remuneration Committee's meeting includes fixed items as well as matters considered on request.

The Secretary of the Nomination and Remuneration Committee, on the basis of materials received, prepares a draft agenda of the meeting together with a list of invitees, and forwards it to the Committee Chairman for approval.

Meetings of the Nomination and Remuneration Committee must be attended by all its members. The Committee member who is unable to attend a meeting should notify the Committee Secretary seven days before the fixed date of the meeting. A meeting of the Committee or an appropriate part of a meeting is attended by persons invited by the Chairman of the Committee and especially persons who are to present particular matters.

Resolutions of the Nomination and Remuneration Committee are adopted by the absolute majority of votes of the members of the Committee present at the meeting.

The Chairman of the Nomination and Remuneration Committee may decide that a given matter will be resolved in writing. A member of the Nomination and Remuneration Committee who votes against may request that his dissension be recorded in the minutes.

Minutes are taken of meetings of the Nomination and Remuneration Committee. The minutes are signed by the Chairman and the Secretary. The minutes of the meeting of the Committee is approved by the members of the Committee at the next meeting of the Committee.

Risk and Capital Committee

The Risk and Capital Committee is composed of:

1) Frank Mannion – Chairman of the Committee;
2) Igor Chalupec – Vice Chairman of the Committee;
3) Marek Belka – Member of the Committee;
4) Grzegorz Bielicki – Member of the Committee (since 21 March 2018);
5) Marek Kapuściński – Member of the Committee;
6) Marc Luet – Member of the Committee;
7) Andrzej Olechowski – Member of the Committee;
8) Anand Selvakesan – Member of the Committee;
9) Stephen R. Volk – Member of the Committee.

Members of the Committee have the powers as set out in the Regulations under Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each successive calendar year is submitted by the end of the first quarter of the following year. The reports are made available to shareholders through publication on the Bank's website and at the Bank's office.

At the next following meeting of the Supervisory Board, the Committee reports to the Supervisory Board on each of the Committee meetings and the Committee's recommendations discussed at its meetings. The Committee's Regulations are made available on the Bank's website and at the Bank's office.

The Committee has the authority to supervise adoption of the risk management system at the Bank by the Management Board and to assess the adequacy and effectiveness of the risk management system, and to supervise the process of estimating internal capital and capital management.

The Risk and Capital Committee consists of at least four Supervisory Board members, one of whom acts as the Committee's Chairperson. In order for the Committee's resolutions to be valid, at least three of its members must attend the meeting.

Committee meetings are convened by the Committee Chairman at his own initiative or at the request of a Committee member. If for any reason the Committee Chairman is unable to convene a meeting, it will be convened by the Deputy Chairman. Meetings are also convened at the request of a Committee member or the Supervisory Board Chairman.

Committee meetings are held at least every six months, on the dates set by the Chairman in consultation with the Deputy Chairman of the Committee.

A notice convening a meeting, setting out the agenda and materials for the meeting, are sent to members of the Committee by the Committee Secretary who is the Secretary of the Supervisory Board. Notice should include the agenda and materials on the topics to be discussed at the meeting. The agenda of the Committee's meeting includes fixed items as well as matters considered on request. The Supervisory Board and individual members of the Committee and other members of the Supervisory Board have the right to put forward matters at Committee meetings.

All members of the Committee are obliged to participate in the meeting of the Committee.

The Committee may seek the advice of advisers and invite Bank employees or other persons to its meetings to discuss or examine matters raised by the Committee.

Persons invited by the Committee Chairman or Deputy Chairman take part in the Committee meeting or its relevant part.

The Committee Chairman chairs Committee meetings. If the Chairman of the Committee is not present, the meeting is chaired by the Deputy Chairman of the Committee.

Resolutions of the Committee are adopted by the absolute majority of votes of the members of the Committee present at the meeting. The Committee Chairman may, in consultation with the Deputy Chairman, decide to consider a matter in writing.

The minutes of a meeting of the Committee shall be prepared.

12. Good practices in Dom Maklerski Banku Handlowego S.A – company belonging to the Bank's Capital Group

Dom Maklerski Banku Handlowego S.A. (DMBH) is not a public company and is not required to adhere to the Best Practice for GPW Listed Companies or to make statements in that respect, however, due to the significant role of that entity in the Group, the following circumstances should be pointed out.

DMBH is a member of the Chamber of Brokerage Houses – as a member of the Chamber, it is required to comply with the Code of Good Practice for Brokerage Houses, developed by the Chamber of Brokerage Houses. The Code does not regulate corporate governance, it is mainly concerned with protection of professional secrecy, client relationships, conduct of brokerage house employees, including in relations with other brokerage houses.

DMBH is regulated by the Act on Trading in Financial Instruments and therefore, in addition to the Code of Commercial Companies, it adheres to certain elements of corporate governance resulting from that Act as well as implementing regulations; for example, under Article 103 of the above Act, the management board should include at least 2 persons with higher education, at least 3 years' work experience in financial institutions and good reputation earned in such service. The Polish Financial Supervision Authority (KNF) is kept informed by DMBH about any changes on the Management Board. In addition, DMBH has reporting obligations to the KNF (including on changes on the Management Board, on the wording of specific resolutions of the General Meeting). The Act on Trading also regulates the issue of purchase of shares in a brokerage house. It provides that the head office of a brokerage house must be in the territory of Poland. As of 1 January 2015, DMBH is subject to the Principles of Corporate Governance for Supervised Institutions ("CG") adopted by the KNF resolution of 22 July 2014. The Principles of Corporate Governance are a set of rules governing internal and external relations of institutions supervised by the KNF, including their relationships with shareholders and customers, their organization, the operation of internal oversight as well as of key internal systems and functions, and of corporate bodies and their cooperation. The purpose of the Principles of Corporate Governance is to enhance corporate governance in financial institutions and transparency of their operations, which is designed to promote public confidence in the Polish financial market. On 23 December 2014, the Management Board of DMBH declared the desire of DMBH to abide by the CG Rules, and the Supervisory Board accepted adherence to those CG Rules which fall under the authority of the Supervisory Board. On 12 June 2018, the Supervisory Board approved the 2017 CG compliance report.

Three CG Rules are not applied by DMBH:

a) § 11.2 (related party transactions) – this rule will not be applied to contracts related to daily operating activities;

b) § 22.1 and 22.2 (independence of members of the supervisory authority) – these rules are not applied due to the current composition of the Supervisory Board.

13. Diversity Policy

In its operations, Bank Handlowy w Warszawie S.A. applies solutions based on diversity which is the hallmark of Citi's corporate culture and its philosophy.

The strategy of Bank Handlowy w Warszawie S.A. for diversity integration consists in promoting a culture which attracts the best of the best, in which people are promoted for their competencies and skills, in which other people are appreciated and mutual respect is expected, and in which development opportunities are available to everyone –regardless of differences.

Our diversity initiatives apply to three levels:

- To individuals – the Bank empowers individuals to take responsibility for their own careers and personal development to achieve their full potential regardless of gender, religion, race, ethnicity, nationality or sexual orientation;
- To teams – the Bank strives to ensure an atmosphere of respect in which diverse teams utilize a wide range of perspectives, skills, experiences and approaches;
- To the organization – embracing everything that employees have to offer, the diversity strategy positions the Bank as an employer of choice.

Utilizing various perspectives and enabling employees to develop their skills, we focus on growth and innovation for our clients and employees, following the principle that each individual contributes to the value of whatever we develop together.

In its employment policy, the Bank strongly supports diversity, and being committed to talent development it takes on career and development of female employees who manage vital organizational units in Citi Handlowy. In 2017, 51% of persons employed through recruitment processes were women compared to 49% of employed men. In 2018 recruitment processes, the proportion of employed women to employed men increased: 54% women, 46% men. The majority of managers hired at the Bank in 2017 are women, who accounted for 51% of the total population of managers. This ratio remains the same also in 2018.

Average length of service in the Bank over the last 3 years has been about 8 years, however in women the average length of service in 2018 was above 10 years. The average length of service at the Bank is growing and exceeded 9 years in 2018.

The Bank's business variety and specific needs determine directions and requirements concerning professional knowledge necessary to preserve best quality services for, be it, an internal or external client.

The Bank ensures support for employee initiatives and commitment to others and to our organization. An example of such support are organizations which bring together the Bank's employees involved in different types of activities. The two largest and longest operating initiatives in Citi Handlowy are CitiClub and CitiWomen.

When building its remuneration policy, the Bank hinges it on the best market practices taking into consideration corporate governance requirements, market trends and the organization's standing and potential.

When defining remuneration the Bank refers to experience and competence required for a given job position, performance, present remuneration, and position juxtaposed with a new group of employees on the market. Based on such information a new level of remuneration is defined.

Levels of remuneration are reviewed on a regular basis annually, taking into account the employee's annual assessment, his or her skills and scope of responsibilities juxtaposed with data obtained from market research concerning the level of remuneration in the industry.

Women's remuneration in the Bank amounts to 97% of men's remuneration.

Concerned about the life situation of its employees, Citi Handlowy provides a wide range of additional benefits, which make up one of the richest offer on the market.

The Bank strives to be a company which draws the best talent, hires and promotes employees based on performance and makes growth opportunities widely available. The aim is to create a workplace where responsible finance is practised, where employees treat each other with due respect and dignity, and may count on support to preserve a balance between work and private life. The Bank adheres to the principles of equality in recruitment and respects the provisions of law on fair employment practices and anti-discrimination.

The Bank takes preventive actions to counteract discrimination, consisting of a range of educational activities aimed at raising awareness as regards discrimination, unequal treatment, mobbing and actions which can bring about proper organizational climate favorable to the fair play principle at work place (primary prevention).

A dialogue with employees is an important part of the Group's activity. Every employee has access to an internal intranet network, where he or she can find the latest information concerning all the Bank's areas of operation. The most crucial information concerning the Bank and changes which take place in the organization is sent directly to the employees' inboxes in an internal newsletter „Puls CitiHandlowy".

Senior management organizes special meetings with employees called Town Halls. At such meetings the most crucial information is provided concerning particular business areas, the Bank's financial results as well as information on new products or organizational changes. Every employee can ask directly the hosting Member of the Management Board and invited guests questions.

The employees can also use the internal social platform „Citi Collaborate". Its wide accessibility allows for exchanging information and building close cooperation between employees and management.

XI. Other information about the authorities of Bank Handlowy w Warszawie S.A. and corporate governance rules

1. Information regarding the remuneration policy

The Group of Bank Handlowy has the "Employee Remuneration Policy of Bank Handlowy w Warszawie S.A." (adopted on 22 December 2017) and the Employee Remuneration Policy of Dom Maklerski Banku Handlowego S.A. (adopted on 3 January 2018), hereinafter referred to as the „Remuneration Policy", which replaced previous policies in this area.

The Remuneration Policy lays down the rules adopted at the Bank and DMBH for remunerating all employees, including Key Personnel, and is aimed at achieving long-term growth of shareholder value and ensuring stable operation of the Company.

The Group's philosophy of remunerating people covered by the "Authorized Persons Remuneration Policy" assumes differentiation of the remuneration of individual employees based on financial or non-financial criteria, such as risk-taking approach and compliance with regulations, in order to reflect their current or future input and to complement effective risk control mechanisms by containing the incentive to take unreasonable risks to the Group and its operations, and by rewarding thoughtful balance between risks and returns. According to that philosophy, the variable remuneration of people covered by the "Authorized Persons Remuneration Policy" depends on both short-term and long-term assessment of individual performance and financial results of the Bank or DMBH or the relevant organizational unit, respectively, while the persons serving in control roles are not evaluated for the performance of their supervised units. Assessment of the Bank's or DMBH's performance is made on the basis of data for three financial years, which encompasses economic cycles and risks involved in the business activity pursued by the Group.

Eligibility for individual payments must be each time approved by the Supervisory Board – in relation to the Management Board and by the Management Board – in relation to other employees.

At least 50% of variable remuneration should be awarded in the form of non-monetary instruments the value of which depends strictly on the financial performance of the Bank or DMBH, respectively. This condition is met by the phantom shares adopted by the Group, whose value will fluctuate depending on the market value of the Bank's shares. In the case of DMBH, according to the Remuneration Policy adopted on 3 January 2018, the value of phantom shares depends on the value of DMBH's common shares. The remaining portion of the variable remuneration is a monetary bonus, with interest accruing on the deferred portion of the bonus for the period between granting and payment of that remuneration component.

Eligibility for each portion of a deferred bonus will depend on performance of the Bank or DMBH, respectively, in the calendar year immediately preceding the date of becoming eligible for that portion.

The remuneration policy for this group of employees is described in more detail in the Report on capital adequacy, risk and remuneration policy of the Bank Handlowy w Warszawie S.A. Group as of 31 December 2018.

The Supervisory Board of the Bank positively assessed functioning of the Remuneration Policy applied in the Group.

2. Salaries and awards, including bonuses from profit, paid to persons managing and supervising the Bank

The total amount of salaries, awards and short-term benefits paid to current and former members of the Bank's Management Board in 2018:

PLN'000	Salaries, awards and short-term benefits	
	Base salaries and awards	Other benefits
Sławomir S. Sikora	3,022	372
Maciej Kropidłowski	1,868	257
David Mouillé	1,946	779
Barbara Sobala	958	102
Witold Zieliński(1)	340	550
Katarzyna Majewska	946	101
Natalia Bożek(2)	616	54
Former members of the Management Board:		
Czesław Piasek(3)	460	91
Iwona Dudzińska	-	11
	10,156	**2,324**

(1) *In employment until 18 February 2018*

(2) *In employment until 21 March 2018*

(3) *In employment until 31 March 2018*

(4) *In employment until 31 July 2015*

The total amount of salaries, awards and short-term benefits paid to current and former members of the Bank's Management Board in 2017:

PLN'000	Salaries, awards and short-term benefits	
	Base salaries and awards	Other benefits
Sławomir S. Sikora	2,025	282
Maciej Kropidłowski	2,030	228
David Mouillé	1,912	744
Barbara Sobala	958	95
Witold Zieliński(1)	1,127	117
Katarzyna Majewska	942	96
Czesław Piasek	1,207	120
Former members of the Management Board:		
Iwona Dudzińska (2)	-	7
	10,201	**1,689**

(1) *In employment since 18 February 2018*

(2) *In employment until 31 July 2015*

"Base salaries and awards" include gross base salary well as awards paid in 2018 and 2017.

"Other benefits" include the gross amount of paid remuneration arising from indemnification for employment contract termination, benefits in kind, lump-sum payment for the use of a company car, insurance policy premiums, holiday leave equivalent and any supplementary benefits consistent with the employment contracts of foreign employees.

Equity awards granted in 2018 include deferred cash prize awarded in previous years on the basis of the Policy of Variable Components of Remuneration of Officers in the Bank and paid management options as well as long-term and short-term awards in the form of phantom shares of the Bank granted also in previous years.

PLN'000	Capital assets granted	
	granted for year 2017	granted for years 2014-2016
Sławomir S. Sikora	-	1,946
Maciej Kropidłowski	426	1,338
David Mouillé	545	367
Barbara Sobala	151	209
Witold Zieliński[(1)]	197	320
Katarzyna Majewska[(2)]	153	75
Natalia Bożek		
Czesław Piasek	191	276
Former members of the Management Board:		
Brendan Carney [(3)]	-	365
Iwona Dudzińska [(4)]	-	151
	1,663	**5,047**

[(1)] *In employment until 18 February 2018*

[(2)] *In employment since 11 January 2016*

[(3)] *In employment until 22 June 2015*

[(4)] *In employment until 31 July 2015*

Equity awards granted in 2017 include deferred cash prize awarded in previous years on the basis of the Policy of Variable Components of Remuneration of Officers in the Bank and paid management options as well as long-term and short-term awards in the form of phantom shares of the Bank granted also in previous years.

PLN'000	Capital assets granted	
	granted for year 2016	granted for years 2013-2015
Sławomir S. Sikora	589	1,781
Maciej Kropidłowski	594	988
David Mouillé	532	101
Barbara Sobala	156	181
Witold Zieliński[(1)]	214	290
Katarzyna Majewska[(2)]	153	-
Czesław Piasek	194	250
Former members of the Management Board:		
Brendan Carney [(3)]	-	521
Iwona Dudzińska [(4)]	-	164
Misbah Ur-Rahman-Shah [(5)]	-	1,341
Robert Daniel Massey JR [(6)]	-	63
	2,432	**5,680**

[(1)] *In employment until 18 February 2018*

[(2)] *In employment since 11 January 2016*

[(3)] *In employment until 22 June 2015*

[(4)] *In employment until 31 July 2015*

[(5)] *In employment until 18 March 2014*

[(6)] *In employment until 19 June 2013*

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's Supervisory Board in 2018 and 2017:

PLN'000	2018	2017
Andrzej Olechowski	402	402
Igor Chalupec	272	276
Mirosław Gryszka[(1)]	13	221
Marek Kapuściński	276	230
Anna Rulkiewicz[(2)]	-	121
Stanisław Sołtysiński	216	216
Shirish Apte	216	241
Marek Belka[(3)]	246	66
Grzegorz Bielicki[(4)]	288	-
	1,929	**1,773**

[(1)] *In employment until 5 December 2017*

[(2)] *In employment since 22 September 2017*

[(3)] *In employment until 22 June 2017*

[(4)] *In employment until 6 December 2017*

The remuneration paid and due in 2018 to persons managing subsidiaries amounted to t PLN 3,061 thousand (in 2017: PLN 3,783 thousand).

Persons supervising subsidiaries did not collect any remuneration for their services in 2018 and 2017.

3. Total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2018 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
Management Board				
Sławomir S. Sikora	-	-	23,204	872
Katarzyna Majewska	-	-	29	1
Supervisory Board				
Andrzej Olechowski	2,200	8,800	-	-
Shirish Apte	-	-	100,000	3,481
Frank Mannion	-	-	28,091	978
Anand Selvakesari	-	-	21,099	735
Marc Luet	-	-	23,007	801
Stephen R. Volk	-	-	135,559	4,719

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2017 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
Management Board				
Katarzyna Majewska	-	-	29	1
Czesław Piasek	-	-	2,550	89
Supervisory Board				
Andrzej Olechowski	2,200	8,800	-	-
Shirish Apte	-	-	83,172	3,127
Frank Mannion	-	-	30,859	1,160
Anand Selvakesari	-	-	26,829	1,009
Marc Luet	-	-	12,584	473
Stephen R. Volk	-	-	142,981	5,376

As at 31 December 2018 and 31 December 2017, no member of the Management Board and the Supervisory Board was a shareholder of a subsidiary of the Bank.

4. Agreements between the Bank and members of the Management Board that provide for compensation in case of their resignation or dismissal without reason or as a result of the Bank's takeover

In terms of employment relationship, there is only one employment agreement, among employment agreements between the Bank and a Management Board Members, which provides for cash compensation following its termination.

Each of the Management Board Members signed a separate non-competition agreement with the Bank. A relevant paragraph in each of these agreements specifies that the Management Board Member must refrain from conducting business activities competitive to the Bank in the period of 12 months (6 months in case of one of the Management Board Members) following termination of the employment agreement with the Bank and that the Bank will pay relevant compensation to the Management Board Member.

5. Management policy

The management policy of the Bank did not change in 2018. The policy is described in the Note to the Annual Consolidated Financial Statements of the Capital Group of the Bank.

XII. Agreements concluded with the registered audit company

On 22 March 2017 the Supervisory Board of the Bank appointed the auditor: KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa [KPMG Audyt limited liability partnership] with its registered office in Warsaw, operating at the following address: ul. Inflancka 4A, 00-189 Warszawa entered into the list of entities authorized to audit financial statements under No. 3546, to conduct an audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for years 2017 and 2018. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa was selected in compliance with the applicable laws and auditing standards.

The Bank used the services of KPMG Audit Spółka z ograniczoną odpowiedzialnością sp. k. with respect to auditing and reviewing stand-alone and consolidated financial statements for 2012 and in previous years.

In order to meet the requirements contained in Article 130 section 1 of the Act on statutory auditors, audit firms and public supervision (Journal of Laws of 2017, item 1089, hereinafter referred to as the „Act"), the Bank, as a public interest entity, has implemented for application on the basis of resolutions of the Supervisory Board of the Bank:

- Policy for selecting an audit firm to audit financial statements of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. and
- Policy for the service by the audit firm, by entities affiliated to that audit firm and by a member of the audit firm's network of permitted non-audit services of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A.

The auditor's net fees under the agreements (paid or payable) for the years 2018 and 2017 are presented in the table below:

PLN'000	For the year	
	2018	2017
Bank (the parent company) audit fees (1)	421	421
Bank (the parent company) review fees (2)	177	177
Subsidiary companies audit fees (3)	214	227
Other assurance fees (4)	325	325
	1,137	**1,150**

(1) *The audit fees include fees paid or payable for the audit of the annual stand-alone financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2018 signed on 30 June 2017).*

(2) *The review fees include fees paid or payable for the review of the semi-annual stand-alone financial statements of the Bank and the semi-annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2018 signed on 30 June 2017).*

(3) *The audit fees include fees paid or payable for the audit of the financial statements of the Bank's subsidiaries.*

(4) *The fees for other assurance services include all other fees paid to the auditor. These fees include assurance services related to the audit and review of the financial statements not mentioned in points (1), (2) and (3) above.*

XIII. Subsequent events

As from 1 February 2019 by the decision of the Supervisory Board of Bank from 7 December, 2018, James Foley was appointed to perform the function of a member of the Management Board of Bank for a three-year term of office. James Foley within the division of his competences will be responsible for the transactional banking area.

After 31 December 2018 there were no other major events undisclosed in these report on activities, that could have a significant influence on the net result of the Group.

XIV. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, composed of: Mr. Sławomir S. Sikora, President of the Management Board; Ms. Natalia Bożek, Vice-Presidend of the Management Board; Mr. Maciej Kropidłowski, Vice-President of the Management Board; Mr. David Mouillé, Vice-President of the Management Board; Ms. Barbara Sobala, Vice-President of the Management Board; Mr. James Foley, Member of the Management Board; Ms. Katarzyna Majewska, Member of the Management Board, the annual financial data and the comparative data presented in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2018 were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of the assets and the financial position as well as the financial profit or loss of the Bank. The Annual Report on the Activities of Bank Handlowy w Warszawie S.A and the Capital Group of Bank Handlowy w Warszawie S.A. for 2018 contained in the annual financial statements is a true representation of the development, achievements and situation (together with a description of the main risks) of the Bank in 2018.

Other information required by the Regulation of the Minister of Finance of 29 March 2018 on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof (Journal of Laws No. from 2018 item 757, as amended), in particular transactions with related companies and guarantees and sureties granted are included in the Annual Consolidated Financial Statements of the Capital Group of the Bank.

Signatures of Management Board Members

21.03.2019	Sławomir S. Sikora	President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Natalia Bożek	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Maciej Kropidłowski	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	David Mouillé	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Barbara Sobala	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	James Foley	Member of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Katarzyna Majewska	Member of the Management Board	
Date	Name	Position/function	Signature

Assessment of the Supervisory Board with justification concerning the Management's Report on activities and Financial statements for 2018

The Supervisory Board of Bank Handlowy w Warszawie SA (further referred to as "Supervisory Board") on the basis of Article 382 §3 of the commercial code with § 70 sec. 1 pt. 14 as well as § 71 sec. 1 pt. 12 of the "Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by non-Member states as equivalent", positively assessed the documents:

1. the Annual financial statements of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2018
2. the Annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2018
3. the Management's Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the year 2018 including Report on activities of Bank Handlowy w Warszawie S.A.

as consistent with the books and documents as well as with the factual status.

The opinion of the Supervisory Board has been based on the content of the aforementioned reports presented by the Management Board of Bank Handlowy w Warszawie SA, reports of the independent auditor from the audit of standalone and consolidated financial statements as well as the recommendation of the Audit Committee.

Audit of the financial statements have been conducted by KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, with its seat in Warsaw, which has been elected by the Supervisory Board to conduct the audit of standalone financial statements of Bank Handlowy w Warszawie SA and consolidated financial statements of the Group of Bank Handlowy w Warszawie SA for the year ended 31 December 2018.

According to the statutory auditor's opinion both standalone, and consolidated financial statements and give true and fair view of the financial results and operations of the Bank and the Bank Group as of 31 December 2018, financial results of activities and cash flows for the year ended on that date and have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union and the accounting policies. Moreover standalone and consolidated financial statements are compliant, in all material aspects, as to the form and content with the applicable laws and the Statute of Bank Handlowy w Warszawie SA.

Additionally in the opinion of the independent auditor, the management Board's Report on activities of the Group of Bank Handlowy w Warszawie S.A. for 2018 prepared together with the Report on activities of Bank Handlowy w Warszawie SA have been prepared, in all material aspects, in accordance with applicable laws and is consistent with information included in the consolidated financial statements.

On behalf of the Supervisory Board

Andrzej Olechowski, PhD

Chairman of the Supervisory Board of Bank Handlowy w Warszawie SA

Warsaw, 21 March 2019

The Supervisory Board's Resolution, in connection with § 70.1.8 and § 71.1.8 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent

The Supervisory Board, in connection with § 70.1.8 and § 71.1.8 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent, with due consideration of the Audit Committee's assessment included in the Audit Committee's report on its activities during 2018, hereby resolves as follows:

a) The provisions regarding the appointment, composition and operation of the Audit Committee of the Bank's Supervisory Board have been complied with, including those regarding the fulfillment of independence criteria and the requirements as to knowledge and skills in the field of finance, accounting or audit of financial statements by its members;

b) The Audit Committee of the Bank's Supervisory Board has fulfilled the audit committee tasks as provided for in the applicable regulations.

On belahf of the Supervisory Board

Andrzej Olechowski, PhD

Chairman of the Supervisory Board of Bank Handlowy w Warszawie SA

Warsaw, 21 March 2019

Information of the Management Board of Bank Handlowy w Warszawie SA on the selection of the audit firm to audit annual financial statements of the Bank and the Capital Group of the Bank

The Management Board of Bank Handlowy w Warszawie SA, in connection with § 70.1.7 and § 71.1.7 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent, The Supervisory Board of Bank Handlowy w Warszawie S.A. (hereinafter referred to as the Supervisory Board), based on the Resolution of the Supervisory Board dated on the selection of the audit firm to audit annual financial statements of the Bank and the Capital Group of the Bank, hereby resolves as follows:

a) The selection of KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as an audit firm to audit annual financial statements of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. for 2018, was duly carried out in compliance with the regulations, including those governing the audit firm selection and selection procedure;

b) KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa and the members of the audit team have satisfied the conditions to issue an impartial and independent report from audit of annual financial statements in accordance with the applicable regulations, auditing standards and principles of professional ethics;

c) The regulations on rotation of audit firm and key auditor as well as mandatory breaks in audit engagements have been complied with;

d) Bank Handlowy w Warszawie S.A. has the audit firm selection policy and the policy regarding the provision of additional non-audit services for Bank Handlowy w Warszawie S.A. by the audit firm, its affiliate or member of the audit firm's network, including any services that are conditionally exempted from the ban on provision by the audit firm.

Signatures of Management Board Members

21.03.2019	Sławomir S. Sikora	President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Natalia Bożek	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Maciej Kropidłowski	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	David Mouillé	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Barbara Sobala	Vice-President of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	James Foley	Member of the Management Board	
Date	Name	Position/function	Signature
21.03.2019	Katarzyna Majewska	Member of the Management Board	
Date	Name	Position/function	Signature

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