Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the Third Quarter 2018

November 2018

SELECTED FINANCIAL DATA	PLN '000		EUR '000***	
	Third quarter accruals	Third quarter accruals	Third quarter accruals	Third quarter accruals
	period from 01.01.18 to 30.09.18	period from 01.01.17 to 30.09.17	period from 01.01.18 to 30.09.18	period from 01.01.17 to 30.09.17
Data related to the interim condensed consolidated financial statements				
Interest income	934,911	994,999	219,798	233,754
Fee and commission income	481,459	497,011	113,191	116,762
Profit before tax	631,835	496,924	148,545	116,742
Net profit	486,696	372,205	114,422	87,442
Comprehensive income	517,047	508,084	121,558	119,364
Increase/(decrease) in net cash	199,748	169,100	46,961	39,727
Total assets*	45,163,346	43,037,596	10,573,429	10,318,539
Amounts due to banks*	2,365,393	1,568,376	553,775	376,028
Amounts due to customers*	33,372,336	32,136,698	7,812,974	7,704,979
Equity	6,843,339	6,706,322	1,602,130	1,556,316
Ordinary shares	522,638	522,638	122,358	121,287
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	52.38	51.33	12.26	11.91
Total capital adequacy ratio (%)*	16.9	17.9	16.9	17.9
Earnings per share (PLN / EUR)	3.72	2.85	0.87	0.67
Diluted earnings per share (PLN / EUR)	3.72	2.85	0.87	0.67
Data related to the interim condensed standalone financial statements				
Interest income	934,046	994,034	219,595	233,528
Fee and commission income	453,917	454,905	106,716	106,871
Profit before tax	645,564	493,163	151,772	115,858
Net profit	500,918	376,094	117,766	88,355
Comprehensive income	531,401	512,088	124,933	120,304
Increase/(decrease) in net cash	199,748	169,115	46,961	39,730
Total assets*	44,806,389	42,863,964	10,489,860	10,276,910
Amounts due to banks*	2,365,284	1,568,261	553,749	376,001
Amounts due to customers*	33,459,170	32,172,441	7,833,303	7,713,549
Equity	6,793,428	6,644,126	1,590,445	1,541,883
Ordinary shares	522,638	522,638	122,358	121,287
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)	51.99	50.85	12.17	11.80
Total capital adequacy ratio (%)*	16.6	17.6	16.6	17.6
Earnings per share (PLN/EUR)	3.83	2.88	0.90	0.68
Diluted earnings per share (PLN / EUR)	3.83	2.88	0.90	0.68
Declared or paid dividends per share (PLN/EUR)**	4.11	4.53	0.96	1.05

**Comparative balance data according as at 31 December 2017.*

*** The presented ratios relate respectively to dividend paid in 2018 from the distribution of 2017 profit and dividend paid in 2017 from the appropriation of the 2016 profit.*

****The following exchange rates were applied to convert PLN to EUR: for the statement of financial position - NBP average exchange rate as at 30 September 2018 – 4.2714 (as at 31 December 2017: PLN 4.1709; as at 30 September 2017 – PLN 4.3091); for the income statement, a statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in the first, second and third quarter of 2018 - PLN 4.2535 (in the first, second and third quarter of 2017: PLN 4.2566).*

Contents

Condensed consolidated income statement

PLN '000	Third quarter period from 01.07.18 to 30.09.18	Third quarter accruals period from 01.01.18 to 30.09.18	Third quarter* period from 01.07.17 to 30.09.17	Third quarter accruals* period from 01.01.17 to 30.09.17
Interest income	316,601	934,911	352,780	994,999
Similar income	15,351	42,005	n/a	n/a
Interest expense and similar charges	(51,228)	(148,431)	(79,322)	(203,192)
Net interest income	**280,724**	**828,485**	**273,458**	**791,807**
Fee and commission income	158,260	481,459	164,929	497,011
Fee and commission expense	(23,164)	(65,951)	(18,732)	(61,148)
Net fee and commission income	**135,096**	**415,508**	**146,197**	**435,863**
Dividend income	**486**	**9,436**	**249**	**9,197**
Net income on trading financial instruments and revaluation	**94,452**	**287,195**	**93,525**	**246,456**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income[a]	**8,534**	**87,727**	**12,942**	**28,803**
Net gain/(loss) on equity and other instruments measured at fair value through income statement[b]	**3,372**	**10,164**	**-**	**3,377**
Net gain/(loss) on hedge accounting	**-**	**3,682**	**2,891**	**6,445**
Other operating income	4,602	27,372	7,913	24,835
Other operating expense	(8,258)	(22,129)	(6,694)	(24,789)
Net other operating income and expense	**(3,656)**	**5,243**	**1,219**	**46**
General administrative expenses	**(258,706)**	**(847,676)**	**(260,266)**	**(857,708)**
Depreciation and amortization	**(16,793)**	**(54,154)**	**(18,566)**	**(54,045)**
Profit on sale of other assets	**-**	**(836)**	**10,514**	**10,544**
Net impairment on financial assets and provisions for off–balance sheet commitments[c]	**(19,215)**	**(51,739)**	**(22,048)**	**(64,754)**
Operating income	**224,294**	**693,035**	**240,115**	**556,031**
Share in net profits of entities valued at equity method	**(246)**	**9**	**6**	**271**
Tax on some financial institutions	**(19,276)**	**(61,209)**	**(19,267)**	**(59,378)**
Profit before tax	**204,772**	**631,835**	**220,854**	**496,924**
Income tax expense	**(46,288)**	**(145,139)**	**(49,288)**	**(124,719)**
Net profit	**158,484**	**486,696**	**171,566**	**372,205**
Including:				
Net profit attributable to Bank's shareholders (in PLN)		486,696		372,205
Weighted average number of ordinary shares (in pcs)		130 659 600		130 659 600
Earnings per share (in PLN)		3.72		2.85
Diluted net earnings per share (in PLN)		3.72		2.85

** 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.*

Condensed consolidated statement of comprehensive income

PLN '000	Third quarter	Third quarter accruals	Third quarter*	Third quarter accruals*
	period from 01.07.18 to 30.09.18	period from 01.01.18 to 30.09.18	period from 01.07.17 to 30.09.17	period from 01.01.17 to 30.09.17
Net profit	**158,484**	**486,696**	**171,566**	**372,205**
Other comprehensive income, that might be subsequrently reclassified to profit or loss				
Net changes in value of financial assets measured at fair value through other comprehensive income[d]	(7,562)	30,225	51,829	134,137
Currency translation differences	(106)	126	102	(141)
Other comprehensive income, that cannot be subsequrently reclassified to profit or loss				
Net actuarial profits on specific services program valuation	-	-	-	1,883
Other comprehensive income net of tax	**(7,668)**	**30,351**	**51,931**	**135,879**
Total comprehensive income	**150,816**	**517,047**	**223,497**	**508,084**
Including:				
Comprehensive income attributable to Bank's shareholders	150,816	517,047	223,497	508,084

** 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.*

Condensed consolidated statement of financial position

State as at *PLN '000*	30.09.2018	31.12.2017*
ASSETS		
Cash and balances with the Central Bank	661,547	462,126
Amounts due from banks	880,079	836,774
Financial assets held-for-trading	4,196,415	2,179,925
Debt financial asstes measured at fair value through other comprehensive income[e]	15,487,391	17,439,439
Equity investments valued at equity method	10,431	10,664
Equity and other instruments measured at fair value through income statement[f]	52,409	26,500
Amounts due from customers	21,604,151	19,849,033
Tangible fixed assets	360,588	376,775
Intangible assets	1,373,034	1,352,413
Current income tax receivables	1,352	667
Deferred tax asset	191,926	175,904
Other assets	344,023	325,448
Non-current assets held-for-sale	-	1,928
Total assets	**45,163,346**	**43,037,596**
LIABILITIES		
Amounts due to banks	2,365,393	1,568,376
Financial liabilities held-for-trading	1,266,066	1,353,215
Hedging derivatives	-	50,191
Amounts due to customers	33,372,336	32,136,698
Provisions	37,097	18,300
Current income tax liabilities	36,920	52,340
Other liabilities	1,242,195	919,593
Total liabilities	**38,320,007**	**36,098,713**
EQUITY		
Ordinary shares	522,638	522,638
Share premium	3,003,290	3,003,969
Revaluation reserve	20,311	(9,118)
Other reserves	2,886,644	2,895,598
Retained earnings	410,456	525,796
Total equity	**6,843,339**	**6,938,883**
Total liabilities and equity	**45,163,346**	**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.*

Condensed consolidated statement of changes in equity

PLN '000	Ordinary shares	Share premium	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:	-	-	30,225	126	486,696	-	517,047
Net profit	-	-	-	-	486,696	-	486,696
Currency translation differences from the foreign operations' conversion	-	-	-	126	-	-	126
Net valuation of financial assets measured at fair value through other comprehensive income[g]	-	-	30,225	-	-	-	30,225
Dividends to be paid	-	-	-	-	(537,011)	-	(537,011)
Transfer to capital	-	(679)	-	(9,080)	9,759	-	-
Balance as at 30 September 2018	**522,638**	**3,003,290**	**20,311**	**2,886,644**	**410,456**	-	**6,843,339**

PLN '000	Ordinary shares	Share premium	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:	-	-	134,137	1,742	372,205	-	508,084
Net profit	-	-	-	-	372,205	-	372,205
Currency translation differences from the foreign operations' conversion	-	-	-	(141)	-	-	(141)
Net valuation of available-for-sale financial assets	-	-	134,137	-	-	-	134,137
Net actuarial profits on specific services program valuation	-	-	-	1,883	-	-	1,883
Dividends to be paid	-	(129)	-	-	(592,083)	-	(592,212)
Transfer to capital	-	1,016	-	11,201	(12,217)	-	-
Balance as at 30 September 2017*	**522,638**	**3,003,969**	**(80,706)**	**2,897,987**	**362,434**	**-**	**6,706,322**

PLN '000	Ordinary shares	Share premium	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 on specific services program valuation	-	-	-	(334)	-	-	(334)
Dividends paid	-	(129)	-	-	(592,081)	-	(592,210)
Transfer to capital	-	1,016	-	11,202	(12,218)	-	-
Balance as at 31 December 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.*

Condensed consolidated statement of cash flows

PLN '000	Third quarter accruals period from 01.01.18 to 30.09.18	Third quarter accruals* period from 01.01.17 to 30.09.17
Cash at the beginning of the reporting period	**514,585**	**672,882**
Cash flows from operating activities	821,690	894,014
Cash flows from investing activities	(48,995)	(33,047)
Cash flows from financing activities	(572,947)	(691,867)
Cash at the end of the reporting period	**714,333**	**841,982**
Increase/(decrease) in net cash	**199,748**	**169,100**

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

Supplementary notes to the interim condensed consolidated financial statements

1 General information about the Bank and the Capital Group

Bank Handlowy w Warszawie S.A. ("parent company", „the Bank","Citi Handlowy") Head Office is located in Warsaw at Senatorska 16, 00-923 Warszawa. The Bank was established on the strength of Notarial Deed of 13 April 1870 and was registered and entered into the Register of Companies by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register.

The Bank was registered under entry No. KRS 0000001538 and was granted a statistical REGON No. 000013037 and tax identification No. (NIP) 526-030-02-91.

The Bank and its subsidiaries are expected to continue the business activity for an unspecified period of time.

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

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

The Bank is a universal bank that offers a wide range of banking services for individuals and corporate customers on the domestic and foreign markets. The Bank is also 100% shareholder of Dom Maklerski Banku Handlowego S.A., conducting the brokerage activity in the range of wide financial instruments portfolio and services for individual and corporate customers.

This interim condensed consolidated financial statements present financial data of the Capital Group of Bank Handlowy w Warszawie S.A. ('the Group'), that is composed of Bank Handlowy w Warszawie S.A. ('the Bank') as the parent company and its subsidiaries entities.

In the third quarter of 2018 there were no changes in the structure of Group's entities.

The Group consists of the following subordinated entities:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		30.09.2018	31.12.2017
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A. („DMBH")	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	100.00
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Entities valued at equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

2 Declaration of conformity

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

These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the financial year ended 31 December 2017.

In accordance with the Decree of the Ministry of Finance dated 29 March 2018 regarding current and periodic information provided by issuers of securities and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2018, No. 757, as amended) the Bank is obliged to publish its financial results for the 9 month period ended 30 September 2018 which is deemed to be the current interim financial reporting period.

3 Significant accounting policies

The interim condensed consolidated financial statements of the Group for the third quarter of 2018 have been prepared in accordance with accounting principles adopted and summarized in the annual consolidated financial statements of the Group for the financial year ended 31 December 2017, except for accounting principles amendments effective from 01 January 2018 described further resulting from implementation of IFRS 9 "Financial instruments" and IFRS 15 "Revenues from contracts with customers".

The interim condensed consolidated financial statements of the Group have been prepared for the period from 1 January 2018 to 30 Sepember 2018 and for the consolidated statement of financial position as at 30 September 2018. Comparative financial data are presented for the period from 1 January 2017 to 30 September 2017 and for the consolidated statement of financial position as at 31 December 2017.

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

The financial statements have been prepared on the fair-value-basis for financial assets and financial liabilities measured at fair value in the income statement, including derivatives and financial assets measured at fair value through other comprehensive income and other equity investments (minority shareholdings). Other assets and liabilities are presented at amortized cost (loans and receivables, other financial liabilities) at cost decreased by depreciation/ amortization and impairment losses.

The preparation of interim condensed consolidated financial statements of the Group with accordance to International Financial Reporting Standards requires from the Management to prepare certain estimates and adopt related assumptions that affect the amounts reported in the financial statements. This financial statement is based on the same estimation rules, which were used in the annual consolidated financial statements of the Group for the financial year ended 31 December 2017, including the reasons and sources of uncertainty as at the balance sheet date taking into account amendments resulting from IFRS 9 and IFRS 15.

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 European Union for application starting from 1 January 2019 r., will replace IAS 17.

  The new standard introduces amended comprehensive approach to lease contract identification and their recognition in financial statements of lessors and lessees. IFRS 16 introduces control model, which is a method of distinguishment of lease contracts from service agreements. The distinguishment focuses on assessment whether within the contract a specified asset controlled by customer can be identified.

  Standard introduces significant changes in lessee accounting - no longer will there be a separation of operating and finance lease. It is also necessary to recognize right of use asset and corresponding lease liability.

  The Group started implementation work and believes that the application of the new standard will impact recognition, disclosures and measurement of assets used in operating lease contract together with corresponding liabilities.

  On the basis of so far performed work performed so far, the Group identified contracts covered by the requirements of IFRS 16 concerning real estates and estimates the impact of the change in recognition of these contracts in financial statement. Furthermore, the Group analyses identified contracts in other areas in order to check if they are subject to the new requirements. IFRS 9 amendment. It clarifies situations in which prepayment of receivable results in repayment of significantly lower amount than outstanding one; in cases when it is reasonable, it does not impact SPPI test – the amendment won't have a significant impact on the financial statement.
- IFRS 9 amendment. It clarifies situations in which prepayment of receivable results in repayment of significantly lower amount than outstanding one; in cases when it is reasonable, it does not impact SPPI test – the amendment won't have a significant impact on the financial statement.

Other standard amendments awaiting endorsement by the European Union:

- IFRIC 23 specifying measurement of uncertainties resulting from solutions applied for use of IAS 12 „Income taxes" when it is not clear if they are appropriate from perspective of tax authorities,
- 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 and IFRS 11 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 for borrowing costs treatment,
- amendments to IAS 28 regarding measurement of the long-term share in affiliate companies and joined ventures,
- IAS 19 amendment stating that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- 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

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 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 specifying classification of investment property. No significant impact on the financial statement.
- Standard amendments cycle 2014-2016 including: IFRS 1 in respect to exemptions for first time adoption of IFRS. No significant impact on the financial statement.
- Amendments to IFRS 2 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 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.

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 identified financial assets that failed SPPI test. However, Group is in the possession of assets for which interest formula contains a multiplier. In particular it concerns credit cards portfolio. 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. In this financial statement, Group presents such exposures as measured at amortized cost. The Group is in the process of changing 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 income statement

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 factors presented in scenarios prepared cyclically by the Chief Economist.

Significant Increase in Credit Risk - Institutional Clients Group

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

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

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

Significant Increase in Credit Risk - Global Consumer Banking

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

- as part of the change of the default risk analysis process for a given credit exposure, compare the current assessment of default risk for the credit exposure with the default risk assessment made at the time of initial recognition.

- in addition, assessment includes qualitative reasons based 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.

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 Bank 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. In addition models used to determining provisions are assessed by independent validation of models' office.

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.

The value of 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 Bank 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.

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.

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 Bank, 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 PD value is set at the customer level, in a 12-month horizon, based on a set of statistical models. These are scoring models: demographic, behavioral and using 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 PD value forecast for a set of partial model values available for a given client.

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 01.01.2018	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	18,602	194,506
Total assets				**20,888,211**	**(52,694)**	**20,835,517**

Consolidated financial statement's line as at 31.12.2017	Consolidated financial statement's line as at 01.01.2018	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 off-balance sheet commitments	Provisions for granted off-balance sheet commitments	Amortised cost	Amortised cost	12,789	22,886	35,675
Total liabilities				**12,789**	**22,886**	**35,675**
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 Bank 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).

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

- Change of impairment calculation for financial assets and off-balance sheet liabilities, 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		Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39	Carrying amount IFRS 9
Consolidated financial statement's line as at 31.12.2017	Consolidated financial statement's line as at 01.01.2018				
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					
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 off-balance sheet commitments	Provisions for granted off-balance sheet 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		**Amount – IAS 39**	**Amount – IAS 39**
Consolidated income statement's line for the III quarter of 2017	**Consolidated income statement's line for the III quarter of 2018**	**III quarter of 2017 accruals**	**III quarter of 2018 accruals**
Net gain on debt investment securities available-for-sale	Net gain on debt investment financial assets measured at fair value through other comprehensive income	28,803	87,727
Net gain on capital investment instruments available-for-sale	Net gain on equity and other investments measured at fair value through the income statement	3,377	10,164
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	Net impairment on financial assets and provisions for off–balance sheet commitments	(64,754)	(51,739)

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 off-balance sheet 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 off-balance sheet 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– IAS 39 and value- 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.

Basis of consolidation

Subsidiaries – definition

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

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

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

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

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

Foreign currency

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

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

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

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

PLN		30 September 2018	31 December 2017	30 September 2017
1	USD	3.6754	3.4813	3.6519
1	CHF	3.7638	3.5672	3.7619
1	EUR	4.2714	4.1709	4.3091

Financial assets and financial 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.

A specific situation of financial assets classified in this category are assets whose interest formula contains a multiplier described in an earlier section.

The Group in accordance with Transition Resource Group for Impairment of Financial Instruments establishes and shows gross carrying amount of receivables in Stage 3 in the amount increased by accrued contract interest (table: Amounts due from customers divided into without recognized impairment/with recognized impairment). 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.

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.

Cash

Cash is cash in hand, nostro current account in Central Bank and receivables on current balances in banks (nostro, overdrafts on loro accounts).

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.

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 profit or loss in interest income. 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, 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.

Hedge accounting

The Group applies fair value hedge accounting and used the option available under IFRS 9 to continue application of hedge accounting according to IAS 39.

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

Assets and financial liabilities are offset and shown in consolidated financial statements at net value, if the right to offset involved amounts and the intention of settlement at net value or simultaneous implementation of given asset and regulation of commitment is legally enforceable. At present, the Group doesn't offset any financial assets and liabilities.

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.

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

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

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

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 Bank's request to initiate enforcement proceedings against the client.

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

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

subsequently recovered, the amount of income is presented in "Net impairment on financial assets and provisions for off-balance sheet commitments".

Forbearance

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

In case the 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 increases after an event occurring after impairment was identified, the write-off that was previously made will be reversed as appropriate through profit or loss.

Impairment 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 off-balance sheet 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).

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 established financial assets with impairment on account of credit risk and existing financial assets with impairment on account.

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 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.

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.

Impairment of loans

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 receivables, 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.

4 Macroeconomic conditions and the situation in money, foreign exchange and capital markets

1. Macroeconomic conditions and the situation in money and foreign exchange markets

In the third quarter 2018, GDP growth was probably below the level of 5.1% YoY achieved in Q2 2018, but still significantly above 4%. The growth is still driven by domestic demand, and mainly by individual consumption - it is likely that the consumption growth rate was near to 5% YoY as at the end of September 2018. This is confirmed by the fact that the real growth of retail sales has stabilized at nearly 6% YoY. Strong consumption is a result of continued gradual improvement in the labor market and the optimism of consumers. The domestic demand trend is, most likely, supported by the moderate growth of investment, although the growth of investment is slower than expected in the beginning of the year. The construction output trend was still high in the third quarter of this year, at about 18.5% YoY, however it was below the level achieved in the second quarter, which exceeded 21%. A slowdown in GDP growth is indicated by the lower growth rate for industrial production, which declined to 6% in the third quarter 2018 from 8% in the second quarter, with a decrease in the PMI index to 51.6 in the third quarter of this year from 53.8 in the second quarter.

The registered unemployment rate slightly lowered to 5.7% as at the end of September 2018 from 5.9% in June. Simultaneously, the growth of wages slightly slowed down to 6.9% YoY in Q2 2018 from 7.4% YoY in the second quarter. In addition, the employment growth rate decreased from 3.7% YoY as at end of June 2018 to 3.3% YoY as at the end of September 2018. Despite the slowing down growth of wages and employment, the labor market remains tight and companies have still problems to find skilled employees. We expect that the unemployment rate will continue its downward trend in next quarters and the average growth of wages in the companies sector will be about 7% YoY for the whole year.

Prices of consumer goods and services rose by 2.0% YoY in the third quarter 2018, as compared to 1.7% YoY in the second quarter. Inflation accelerated mainly due the upward fuel price trend. The Bank expects a small decline in inflation in the next months of this year, however in the next year inflation is likely to rise above the 2.5% inflation target and even to approach 3%, because of continued demand pressure in the economy and rising energy prices.

The Monetary Policy Council (MPC) did not decide to raise interest rates. In its last announcements, the MPC indicated that despite good economic performance it cannot see any need to adjust its monetary policy in both 2018 and 2019. The MPC pointed out that in the time horizon of the central bank projections inflation should stay within the fluctuation band around the inflation target. Simultaneously, the MPC is much more cautious in its comments on possible hikes in 2020.

After clear appreciation throughout 2017, the Polish zloty reversed the trend and was falling down in the first half of 2018, however the third quarter 2018 saw the strengthening and stabilization of the domestic currency. The PLN rate was correlated with the EUR/USD rate and the slowdown of the US dollar appreciation trend and the continued inflow of good information from the Polish economy helped the zloty go higher. Despite this, the zloty is still at relatively weak levels in connection with the strong dollar and the possibility that interest rates may stabilize at a very low level. The EUR/PLN rate dropped to 4.28 as at the end of September 2018 from 4.37 as at the end of June 2018. In turn, the USD/PLN rate declined to 3.69 from 3.74 in the same period.

The dovish stance of the MPC indirectly contributed to a decline in interest rates at the shorter end of the T-bond yield curve. In turn, the good performance of the U.S. Economy, the interest rate hikes ordered by Fed and the expected tightening of monetary policy by main central banks led to higher returns on the main debt markets and also to a slight increase in yields of domestic long-term bonds. The yield of 2-year bonds dropped to 1.58% as at the end of September from 1.63% as at the end of June, while the yield of 10-year bonds increased to 3.24% from 3.21%. In turn, 3M WIBOR rose to 1.72% from 1.70%.

2. Capital market situation

In the third quarter 2018, the investor sentiment slightly improved in the domestic equity market, partially as a reaction to poor performance in the first half of this year. The positive trends on the Warsaw Stock Exchange (WSE), and in particular the prices of the largest companies, were supported by global sentiment, including subsequent record-breaking levels achieved by indices in the U.S., supported by improving results of companies and still solid macroeconomic data. On the other hand, accelerating outflows from Polish equity funds were reflected in pressure on prices of mid and, especially, small caps.

As a result, the WIG index rose by 5.4% as compared to end of June 2018. WIG20 (largest caps index) increased by 7%, or even by 9.2% if dividends are taken into account. mWIG40 (mid caps) declined by 1.2%. In turn, small caps were clearly under pressure fueled by sellers and, in consequence, sWIG80 went down by 9.5%.

Over the last three months of this year, the market showed a clear polarization of stock prices in particular sectors. The growth leader was the sub-index of fuel companies, which increased by 22.5% QoQ. Positive returns were generated by banks (+9.1% QoQ) and IT companies (+7.4% QoQ). On the opposite site, we saw chemical and construction companies, whose sub-indexes dropped by 17.3% QoQ and 11.5% QoQ, respectively.

As in previous periods, the third quarter 2018 saw only a small number of IPOs on the WSE. In that period, two companies joined the main equity market (of which one was transferred from New Connect, together with an issue of new shares). The total value of public offerings was PLN 22 million (as compared with over PLN 5.1 billion in the same period last year, achieved mainly thanks to the IPO of Play Communications). In the same time, five companies were delisted. In consequence, as at the end of the third quarter 2018, 470 companies were listed on the main equity market of the WSE (as compared with 473 as at the end of June 2018), having a total capitalization in excess of PLN 1,282 billion (+4.3% QoQ and -10.2% YoY).

Equity market indices as of 30 September 2018

Index	30 September 2018	30 June 2018	Change (%) QoQ	30 September 2017	Change (%) YoY
WIG	58,974.76	55,954.44	5.4%	64,289.69	(8.3%)
WIG-PL	60,176.51	57,060.37	5.5%	65,647.37	(8.3%)
WIG-div	1,098.26	1,045.17	5.1%	1,251.83	(12.3%)
WIG20	2,285.11	2,135.47	7.0%	2,453.46	(6.9%)
WIG20TR	4,031.51	3,690.51	9.2%	4,235.50	(4.8%)
WIG30	2,602.45	2,464.89	5.6%	2,848.87	(8.6%)
mWIG40	4,168.97	4,219.73	(1.2%)	4,988.02	(16.4%)
sWIG80	11,483.58	12,689.02	(9.5%)	15,123.47	(24.1%)
Sector sub-indices					
WIG-Banks	7,876.32	7,219.40	9.1%	7,450.51	5.7%
WIG-Construction	1,895.85	2,143.10	(11.5%)	3,125.87	(39.3%)
WIG-Chemicals	9,829.87	11,891.50	(17.3%)	16,814.67	(41.5%)
WIG- Energy	2,208.13	2,344.45	(5.8%)	3,361.72	(34.3%)
WIG- Mining	3,439.57	3,509.32	(2.0%)	4,596.66	(25.2%)
WIG-IT	2,033.55	1,894.21	7.4%	2,095.18	(2.9%)
WIG-Media	4,524.72	4,845.23	(6.6%)	4,887.60	(7.4%)
WIG- Developers	2,033.93	2,088.32	(2.6%)	2,163.10	(6.0%)
WIG- Oil & Gas	7,362.82	6,011.42	22.5%	7,996.11	(7.9%)
WIG- Food	3,441.51	3,463.23	(0.6%)	3,904.56	(11.9%)
WIG-Telecom	597.45	651.38	(8.3%)	745.25	(19.8%)

Source: WSE, DMBH;

Equity and bond trading value and derivatives trading volumes on WSE in the third quarter of 2018

	Q3 2018	Q2 2018	Change (%) QoQ	Q3 2017	Change (%) YoY
Shares (PLN million)*	114,558	137,401	(16.6%)	118,134	(3.0%)
Bonds (PLN million)	513	1,181	(56.6%)	667	(23.1%)
Futures (in thousand contracts)	3,393	6,001	(43.5%)	3,209	5.7%
Options (in thousand contracts)	122	204	(40.2%)	132	(7.6%)

**excluding calls*
Source: WSE, DMBH

5 Banking sector

The data published by the National Bank of Poland show that the loans granted to businesses exceed PLN 349 billion as at the end of the third quarter 2018 (+6.9% YoY). As regards the maturity structure, the highest growth rate was recorded by loans with maturity up to 1 year (+9.6% YoY), however the loans with time to maturity over 5 years were growing only a little bit slower (+9.2% YoY). On the other hand, the weakest growth rate was observed for medium-term loans (1 to 5 years), which only recorded a minimum increase (+0.3% YoY).

By type, the highest rate of growth occurred for current loans (+11.4% YoY). Real estate loans were increasing a little slower (+9.7% YoY), while investment loans slightly decreased (-0.5% YoY).

As regards the quality of the loan portfolio, available data are as at the end of August 2018, however their changes from the end of August 2017 are distorted by the implementation of a new accounting standard, IFRS 9, effective 1 January 2018. The NPL ratio (non-performing loans) for loans to corporates was 8.9% at the end of August (+0.6 p.p. YoY, and -0.8 p.p. as compared to data as at the end of January – the first available data after introduction of IFRS 9). Loans to large companies had still quality nearly twice as good (NPL = 5.9% as at the end of August) as loans to SMEs (11.2%).

The balance of loans to households reached nearly PLN 697 billion as at the end of September 2018 (+5.1% YoY). The main driver of the above growth was consumer loans and mortgage loans in local currency. The volume of consumer loans rose by 9.3% YoY and mortgage loans in local currency increased by 11.1% YoY. In turn, loans for purchase of real property denominated in foreign currencies dropped by 8.4% YoY, among other as a result of zloty appreciation. In total, the household mortgage loans volume amounted to PLN 425 billion, of which PLN-denominated loans amounted to more than 295 billion.

The quality of the loans to households did not change significantly over the last year. As at the end of September, the NPL ratio for that segment was identical with the level recorded immediately prior to implementation of IFRS 9, i.e. 6.1% (0.5 p.p. below the level as at the end of January – after IFRS 9 was launched). In the consumer loan segment, a slight improvement in portfolio quality was observed (-0.2 p.p. YoY to 11.2%). A similar trend occurred for mortgage loans, for which the NPL ratio decreased by 0.3 p.p. YoY to 2.6%.

Corporate deposits increased by 6.0% YoY and amounted to PLN 268 billion as at the end of the third quarter 2018. Still low interest rates contributed to an increase in the deposit base only in the current deposit segment, which rose by 11.2% YoY, while term deposits declined by 2.9% YoY.

In the household deposit segment, the balance rose by 8.0% YoY to nearly PLN 783 billion. As in the companies deposit segment, the main driver of growth was current deposits, which rose by 14.6% YoY as at the end of September 2018. As in the corporate segment, the balance of term deposits declined by 1.7% YoY.

In the first 8 months of 2018 (January - August), the banking sector earned the highest net profit after 2014, i.e. PLN 10.4 billion (+11.7% YoY) . The financial results of the banks were supported by an increase in net interest income (by 8.6% YoY), while net fee and commission income declined (by 4.2% YoY). Other revenues of the banking sector increased by 11.8% YoY. As a result, the total revenues of the banking sector reached PLN 44.6 billion, i.e. increased by 6.2% as compared to the same period last year. These good results of the banks were achieved thanks to a good economic situation, especially visible in the area of stimulated consumption, which translated, to a significant extent, to a high demand for loans. The factors that adversely affected the results of the banking sector include an increase in total expenses (by 5.4% YoY), fueled by bank tax and BFG contributions, but also the rising investment expenditures of the banks (including in the IT area) and the costs of transformation and multiple M&A processes in the sector. The results of the sector were also reduced by an increase of impairment losses by 4.8% YoY to PLN 5.7 billion.

6 Financial analysis of the results of the Capital Group of the Bank

1. Consolidated statement of financial position

As of the end of the third quarter of 2018 total assets stood at PLN 45.2 billion, down by PLN 2.1 billion (or 4.9%) compared to the end of 2017.

In the third quarter of 2018 net amounts due from customers constituted the largest share in the structure of the Group's assets. As of the end of September 2018 their share in total assets was 47.8%. The value of net amounts due from customers as of the end of Q3, 2018 amounted to PLN 21.6 billion, up by PLN 1.8 billion (or 8.8%) compared to the end of 2017 and it was primarily due to increased lending activity for non-financial sector clients (PLN +1.4 billion, or 7.7%). Amounts due from non-financial sector entities increased both on the institutional clients side (PLN +1.1 billion, or 10.0%; growth in all customer segments), and the retail customers side (PLN 0.3 billion, or 4.0%, due to higher balances on unsecured loans and mortgages).

Net amounts due from customers

PLN '000	30.09.2018	31.12.2017*	Change	
			PLN '000	%
Amounts due from financial sector entities, including:	**2,371,353**	**1,995,017**	**376,336**	**18.9%**
Receivables related to reverse repo transactions	58,701	-	58,701	100.0%
Amounts due from non-financial sector entities, including:	**19,232,798**	**17,854,016**	**1,378,782**	**7.7%**
Institutional clients**	12,160,945	11,056,890	1,104,055	10.0%
Individual clients, including:	7,071,853	6,797,126	274,727	4.0%
unsecured receivables	5,464,763	5,323,199	141,564	2.7%
mortgage loans	1,607,090	1,473,927	133,163	9.0%
Total net receivables from customers	**21,604,151**	**19,849,033**	**1,755,118**	**8.8%**

** 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, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.*

Amounts due from customers divided into without recognized impairment/with recognized impairment

PLN '000	30.09.2018	31.12.2017*	Change	
			PLN '000	%
Receivables without recognized impairment (Stage1), including	**19,843,771**	**19,714,214**	**129,557**	**0.7%**
financial institutions	2,373,284	1,995,354	377,930	18.9%
non-financial sector entities	17,470,487	17,718,860	(248,373)	(1.4%)
institutional clients**	11,107,127	10,946,510	160,617	1.5%
individual customers	6,363,360	6,772,350	(408,990)	(6.0%)

PLN '000	30.09.2018	31.12.2017*	Change	
			PLN '000	%
Receivables without recognized impairment (Stage2), including	**1,680,142**	**n/a**	**n/a**	**n/a**
financial institutions	1	n/a	n/a	n/a
non-financial sector entities	1,680,141	n/a	n/a	n/a
institutional clients**	972,025	n/a	n/a	n/a
individual customers	708,116	n/a	n/a	n/a
Receivables with recognized impairment(Stage 3), including:	**690,322**	**660,094**	**30,228**	**4.6%**
financial institutions	-	17,136	(17,136)	(100.0%)
non-financial sector entities	690,322	642,958	47,364	7.4%
institutional clients**	314,270	322,643	(8,373)	(2.6%)
individual customers	376,052	320,315	55,737	17.4%
Amounts due from matured transactions in derivative instruments (Stage 3)	56,813	62,508	(5,695)	(9.1%)
Total gross loans to customers, including:	**22,271,048**	**20,436,816**	**1,834,232**	**9.0%**
financial institutions	2,373,285	2,012,490	360,795	17.9%
non-financial sector entities	19,840,950	18,361,818	1,479,132	8.1%
institutional clients**	12,393,422	11,269,153	1,124,269	10.0%
individual customers	7,447,528	7,092,665	354,863	5.0%
Impairment, including:	**(666,897)**	**(587,783)**	**(79,114)**	**13.5%**
Amounts due from matured transactions in derivative instruments	(50,727)	(54,295)	3,568	(6.6%)
Total net amounts due from customers	**21,604,151**	**19,849,033**	**1,755,118**	**8.8%**
Impairment provisions coverage ratio***	**89.3%**	**80.8%**		
institutional clients**	75.9%	68.3%		
individual customers	99.9%	92.3%		
Non-performing loans ratio (NPL)	**3.1%**	**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, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.*
**** Ratio was calculated including receivables impairment classified to Stage 1 and Stage 2.*

Total liabilities as of the end of Q3, 2018 amounted to PLN 38.3 billion, up by PLN 2.2 billion (or 6.2%) compared to the end of 2017.

In the third quarter of 2018 amounts due to customers constituted the dominant source of financing of the activities of the Group and amounted to 73.9% of the Group's liabilities and own funds. As of the end of September 2018 amounts due to customers amounted to PLN 33.4 billion, up by PLN 1.2 billion (or 3.8%) compared to the end of 2017. In the non-financial sector amounts due to individual customers increased by PLN 0.9 billion, or 9.1%, predominantly on the term deposits side. On the other hand, deposits of institutional clients in the non-financial sector dropped by PLN 0.6 billion, or 3.7% (the decrease was visible mainly in the public sector segment). On the other hand, deposits in the financial sector grew by PLN 0.8 billion, or. 16.7% (the increase was observed mainly in term deposits).

As of the end of the third quarter of 2018 amounts due to banks amounted to PLN 2.4 billion, which represented 5.2% of the Group's liabilities and own funds. As compared to the end of 2017 amounts due banks increased by PLN 0.8 billion, or 50.8%, inter alia, due to increased overnight deposit balances.

Amounts due to customers

PLN '000	30.09.2018	31.12.2017	Change	
			PLN '000	%
Current accounts, including:	**21,705,782**	**22,660,986**	**(955,204)**	**(4.2%)**
financial sector entities	559,937	531,361	28,576	5.4%
non-financial sector entities, including:	21,145,845	22,129,625	(983,780)	(4.4%)
institutional clients*, including:	12,274,336	13,593,215	(1,318,879)	(9.7%)
budgetary units	1,126,031	2,826,740	(1,700,709)	(60.2%)
individual clients	8,871,509	8,536,410	335,099	3.9%
Term deposits, including:	**11,374,066**	**9,284,167**	**2,089,899**	**22.5%**
financial sector entities	5,103,052	4,321,787	781,265	18.1%
non-financial sector entities, including:	6,271,014	4,962,380	1,308,634	26.4%

PLN '000	30.09.2018	31.12.2017	Change	
			PLN '000	%
institutional clients*, including:	3,855,871	3,150,070	705,801	22.4%
budgetary units	569,407	96,966	472,441	487.2%
individual customers	2,415,143	1,812,310	602,833	33.3%
Total customers deposits	**33,079,848**	**31,945,153**	**1,134,695**	**3.6%**
Other amounts due to customers	**292,488**	**191,545**	**100,943**	**52.7%**
Total amounts due to customers	**33,372,336**	**32,136,698**	**1,235,638**	**3.8%**

* Institutional *clients include enterprises, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.*

2. Consolidated income statement

In the third quarter of 2018 the Group delivered a consolidated net profit of PLN 158.5 million, down by PLN 13.1 million (or 7.6%) compared to the third quarter of 2017. At the same time the Group's revenue declined by PLN 11.5 million (or 2.2%) to PLN 519.0 million.

The main determinants of the Group's operating result in the third quarter of 2018 when compared to the third quarter of 2017 were the following:

- Net interest income of PLN 280.7 million versus PLN 273.5 million in Q3, 2017 – up by PLN 7.3 million (or 2.7%).

  Net interest income in Q3, 2018 declined by PLN 20.8 million (or 5.9%) compared to the corresponding period of 2017 and amounted to PLN 332.0 million. The biggest change was observed in net income from derivative instruments in hedge accounting (down by PLN 20.1 million, or. 100.0% YoY) due the fact that it was not recognized in Q3, 2018. At the same time interest income on amounts due from customers constituting the main source of net interest income reached the level of PLN 238.0 million, up by PLN 6.1 million (or 2.6%) compared to the third quarter of 2017. This was mainly due to the increase in the average volume of unsecured receivables from individual customers and growing credit volumes of institutional clients. On the other hand, interest income on securities (financial assets measured at fair value through other comprehensive income and debt securities held-for-trading) dropped by PLN 3.9 million (or 4.3%) YoY due to lower volumes.

  Interest expenses in the third quarter of 2018 decreased by PLN 28.1 million (or 35.4%) compared to the corresponding period of 2017. The biggest change was observed in interest expenses on derivate instruments in hedge accounting (down by PLN 25.3 million YoY, or 100,0%). On the other hand, interest from amounts due to (both financial and non-financial sector) customers constituting the main source of interest expenses dropped by PLN 3.5 million (or 8.2%) due to a lower margin on institutional clients' deposits.

Net interest income

PLN '000	01.07 - 30.09.2018	01.07 - 30.09.2017*	Change	
			PLN '000	%
Interest income				
Financial assets measured at amortized cost				
Balances with the Central Bank	1,585	4,414	(2,829)	(64.1%)
Amounts due from banks	4,488	5,138	(650)	(12.7%)
Amounts due from customers, in respect of:	237,980	231,928	6,052	2.6%
financial sector	14,035	12,560	1,475	11.7%
non-financial sector, including:	223,945	219,368	4,577	2.1%
credit cards	72,335	71,263	1,072	1.5%
Financial assets measured at fair value through other comprehensive income				
Debt investment financial assets measured at fair value through other comprehensive income**	72,548	84,421	(11,873)	(14.1%)
Similar income				
financial assets measured at fair value through the income statement				
Debt securities held-for-trading	12,989	4,984	8,005	160.6%
Liabilities with negative interest rate	2,362	1,799	563	31.3%
Derivative instruments in hedge accounting	-	20,096	(20,096)	(100.0%)
	331,952	**352,780**	**(20,828)**	**(5.9%)**

PLN '000	01.07 - 30.09.2018	01.07 - 30.09.2017*	Change	
			PLN '000	%
Interest expense and similar charges on				
Financial liabilities measured at amortized cost				
Amounts due to banks	(11,713)	(11,477)	(236)	2.1%
Amounts due to financial sector entities	(15,529)	(14,596)	(933)	6.4%
Amounts due to non-financial sector entities	(23,035)	(27,428)	4,393	(16.0%)
Loans and advances received	(60)	(121)	61	(50.4%)
Financial liabilities measured at fair value through financial results				
Assets with negative interest rate	(891)	(400)	(491)	122.8%
Derivative instruments in hedge accounting	-	(25,300)	25,300	(100.0%)
	(51,228)	**(79,322)**	**28,094**	**(35.4%)**
Net interest income	**280,724**	**273,458**	**7,266**	**2.7%**

** 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.*

- Net fee and commission income of PLN 135.1 million vs PLN 146.2 million in Q3, 2017 – down by PLN 11.1 million (or 7.6%). The biggest decline was observed in fee and commission income on insurance and investment products distribution due to the deterioration of sentiment in capital markets and growing risk aversion. At the same time the increase in expenses due to investments incurred in the area of payment and credit cards led to a decline in fee and commission income on payment and credit cards by PLN 4.3 million (or 11.7%).

Net fee and commission income

PLN '000	01.07 - 30.09.2018	01.07 - 30.09.2017	Change	
			PLN '000	%
Fee and commission income				
Insurance and investment products distribution*	18,513	25,144	(6,631)	(26.4%)
Payment and credit cards	43,333	43,004	329	0.8%
Payment orders	26,850	26,569	281	1.1%
Custody services*	21,475	20,955	520	2.5%
Brokerage activity	10,019	9,913	106	1.1%
Clients' cash on account management services	6,170	5,959	211	3.5%
Guarantees granted	4,673	5,005	(332)	(6.6%)
Financial liabilities granted	2,004	1,645	359	21.8%
Other, including:	25,223	26,735	(1,512)	(5.7%)
installment products in credit card	7,024	6,612	412	6.2%
	158,260	**164,929**	**(6,669)**	**(4.0%)**
Fee and commission expense				
Payment and credit cards	(10,635)	(5,984)	(4,651)	77.7%
Brokerage activity	(3,470)	(3,310)	(160)	4.8%
Fees paid to the National Depository for Securities (KDPW)	(4,236)	(4,785)	549	(11.5%)
Brokerage fees	(821)	(1,104)	283	(25.6%)
Other	(4,002)	(3,549)	(453)	12.8%
	(23,164)	**(18,732)**	**(4,432)**	**23.7%**
Net fee and commission income				
Insurance and investment products distribution	18,513	25,144	(6,631)	(26.4%)
Payment and credit cards	32,698	37,020	(4,322)	(11.7%)
Payment orders	26,850	26,569	281	1.1%
Custody services	21,475	20,955	520	2.5%
Brokerage activity	6,549	6,603	(54)	(0.8%)
Clients' cash on account management services	6,170	5,959	211	3.5%
Guarantees granted	4,673	5,005	(332)	(6.6%)
Financial liabilities granted	2,004	1,645	359	21.8%
Fees paid to the National Depository for Securities (KDPW)	(4,236)	(4,785)	549	(11.5%)

PLN '000	01.07 - 30.09.2018	01.07 - 30.09.2017	Change	
			PLN '000	%
Brokerage fees	(821)	(1,104)	283	(25.6%)
Other	21,221	23,186	(1,965)	(8.5%)
Net fee and commission income	**135,096**	**146,197**	**(11,101)**	**(7.6%)**

**Starting from 1st quarter 2018 the remuneration of the Group from distribution of structured bonds for customers of Retail Sector, presented earlier in Custody services was moved to Insurance and investment products distribution. Comparative data was respectively restated.*

- Other operating income (excluding net interest income and net fee and commission income) amounted to PLN 103.2 million compared to PLN 110.9 million in Q3, 2017 – down by PLN 7.7 million (or 6.9%) due to a lower income on debt investment assets measured at fair value through other comprehensive income and a decline in the result on other income and operating expenses, inter alia, due to increased collection expenses. The above decreases were partially offset by a higher result on capital investments and other measured at fair value through profit and loss in connection with an increase in the value of the minority interests held by the Bank.
- Operating expenses and overheads including depreciation expenses of PLN 275.5 million vs PLN 278.8 million in the corresponding period of the previous year – down by PLN 3.3 million (or 1.2%) due to lower depreciation expenses and staff expenses.

  In Q3, 2018 staff expenses dropped by PLN 1.8 million (or 1.4%) YoY due to lower remuneration costs. The employment in the Group in the reporting period dropped by 105 FTEs.

  Depreciation and amortization dropped by 9.5% compared to the previous year to the level of PLN 16.8 million.

  General administrative expenses remained almost flat. The saves, inter alia, on the transaction costs side were invested in technology (in connection with the implementation of new solutions) and distribution of banking products.

General administrative expenses and depreciation expense

PLN '000	01.07 - 30.09.2018	01.07 - 30.09.2017	Change	
			PLN '000	%
Staff expenses	**(125,562)**	**(127,318)**	**1,756**	**(1.4%)**
Remuneration costs	(91,362)	(94,541)	3,179	(3.4%)
Bonuses and rewards	(20,726)	(19,279)	(1,447)	7.5%
Social security costs	(13,474)	(13,498)	24	(0.2%)
Administrative expenses	**(133,144)**	**(132,948)**	**(196)**	**0.1%**
Telecommunication fees and hardware purchase costs	(49,891)	(48,224)	(1,667)	3.5%
Costs of external services, including advisory, audit, consulting services	(13,401)	(14,375)	974	(6.8%)
Building maintenance and rent costs	(16,335)	(15,966)	(369)	2.3%
Marketing costs	(10,377)	(9,559)	(818)	8.6%
Costs of cash management services, costs of cleaning services and other transaction costs	(8,759)	(10,659)	1,900	(17.8%)
Costs of external services related to distribution of banking products	(10,590)	(9,567)	(1,023)	10.7%
Postal services, office supplies and printmaking costs	(1,721)	(1,840)	119	(6.5%)
Training and education costs	(355)	(327)	(28)	8.6%
Banking and capital supervision costs	(276)	(69)	(207)	300.0%
Bank Guarantee Funds costs	(3,511)	(2,613)	(898)	34.4%
Other expenses	(17,928)	(19,749)	1,821	(9.2%)
Depreciation and amortization	**(16,793)**	**(18,566)**	**1,773**	**(9.5%)**
General administrative expenses and depreciation expense, total	**(275,499)**	**(278,832)**	**3,333**	**(1.2%)**

- Net impairment due to financial assets and provisions for granted financial liabilities and guarantees of PLN -19.2 million compared to PLN -22.0 million in the third quarter of 2017. The decrease in net impairment losses was recorded in the Institutional Banking due to lower default risk and repayment of part of loan portfolio. On the other hand, the Consumer Banking segment reported a higher negative results in net impairment losses as a result of new account balances with impairment recognized along with the increase in the average age of this portfolio.

Net impairment due to financial assets and provisions for granted financial liabilities and guarantees

PLN '000	01.07 - 30.09.2018	01.07 - 30.09.2017*	Change PLN '000	Change %
Net impairment on amounts due from banks				
Write-offs creation	(1,352)	(206)	(1,146)	556.3%
Write-offs reversals	1,246	105	1,141	-
	(106)	**(101)**	**(5)**	**5.0%**
Net impairment on amounts due from customers				
Write-offs creation and reversals	**(19,514)**	**(22,229)**	**2,715**	**(12.2%)**
Write-offs creation	(54,248)	(47,674)	(6,574)	13.8%
Net write-offs creation on receivables on taken instruments transactions	-	(3)	3	(100.0%)
Write-offs reversals	35,184	24,090	11,094	46.1%
Net write-offs creation on receivables on taken instruments transactions	44	46	(2)	(4.3%)
Other	(494)	1,312	(1,806)	(137.7%)
Recoveries from sold debts	**8**	**52**	**(44)**	**(84.6%)**
	(19,506)	**(22,177)**	**2,671**	**(12.0%)**
Net impairment on debt investment financial assets measured at fair value through other comprehensive income				
Write-offs reversals	47	-	47	-
	47	**-**	**47**	**-**
Net impairment on financial assets	**(19,565)**	**(22,278)**	**2,713**	**(12.2%)**
Created provisions for granted financial and guarantee commitments	(10,069)	(3,039)	(7,030)	231.3%
Release of provisions for granted financial and guarantee commitments	10,419	3,269	7,150	218.7%
Net impairment on provisions for granted off-balance sheet commitments	**350**	**230**	**120**	**52.2%**
Net impairment on financial assets and provisions for off-balance sheet commitments	**(19,215)**	**(22,048)**	**2,833**	**(12.8%)**

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

- A decrease in net gain on sale of other assets by PLN 10.5 million due to the sale of the right of perpetual usufruct of real estate in the third quarter of 2017.
- The total charge to the income statement of the Group due to the tax on certain financial institutions in the third quarter of 2018 amounted to PLN 19.3 million and remained almost flat YoY.

3. Financial Ratios

In the third quarter of 2018, the key efficiency ratios were as follows:

Total financial ratios	Q3 2018	Q3 2017
ROE *	10.1%	8.0%
ROA**	1.5%	1.1%
Cost/Income	54%	53%
Loans to non-financial sector/Deposits from non-financial sector	70%	65%
Loans to non-financial sector/Total assets	43%	41%
Net interest income/Revenue	54%	52%
Net fee and commission income/Revenue	26%	28%

**Sum of net profit for the last four quarters to the average equity for the last four quarters (excluding net profit for the current year).*
*** Sum of net profit for the last four quarters to the average assets for the last four quarters.*

Group employment*

In full time job equivalents (FTE)	01.01 – 30.09.2018	01.01 – 30.09.2017	Change	
			FTEs	%
Average employment in the third quarter	3,444	3,575	(131)	(3.7%)
Average employment in the period	3,449	3,584	(135)	(3.8%)
Employment at the end of quarter	3,396	3,501	(105)	(3.0%)

**does not include employees on parental and unpaid leave*

Capital adequacy*

PLN '000	30.09.2018	31.12.2017
Common Equity Tier I before regulatory adjustments	6,356,464	6,403,317
Total regulatory adjustments to Common Equity Tier I	(1,405,610)	(1,421,422)
Common Equity Tier I	4,950,854	4,981,895
Tier I Capital	4,950,854	4,981,895
Own Funds	4,950,854	4,981,895
The total amount of risk exposure	29,350,179	27,882,101
Common Equity Tier 1 capital ratio	16.9%	17.9%
Tier 1 capital ratio	16.9%	17.9%
Total capital ratio	**16.9%**	**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.*

Leverage ratio *

PLN '000	30.09.2018	31.12.2017
Tier I Capital	4,950,854	4,981,895
Total leverage ratio exposures	49,428,973	47,250,960
Leverage ratio	**10.0%**	**10.5%**

**Leverage 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.*

Overview of RWAs

PLN '000			RWA		Minimum capital requirements
CRR			**30.09.2018**	**31.12.2017**	**30.09.2018**
	1	**Credit risk (excluding CCR)**	**22,229,100**	**20,911,562**	**1,778,328**
Article 438 (c) (d)	2	Of which the standardised approach	22,229,100	20,911,562	1,778,328
Article 438 (c) (d)	3	Of which the foundation IRB (FIRB) approach	-	-	-
Article 438 (c) (d)	4	Of which the advanced IRB (AIRB) approach	-	-	-
Article 438 (d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-
Article 107 Article 438 (c) (d)	**6**	**CCR**	**1,217,751**	**1,335,653**	**97,420**
Article 438 (c) (d)	7	Of which mark to market	664,163	722,737	53,133
Article 438 (c) (d)	8	Of which original exposure	-	-	-
	9	Of which the standardised approach	-	-	-
	10	Of which internal model method (IMM)	-	-	-
Article 438 (c) (d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-
Article 438 (c) (d)	12	Of which CVA	553,588	612,916	44,287
Article 438 (e)	**13**	**Settlement risk**	**-**	**1**	**-**
Article 449 (o) (i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**950,588**	**951,516**	**76,047**
	15	Of which IRB approach	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-

	17	Of which internal assessment approach (IAA)	-	-	-
	18	Of which standardised approach	950,588	951,516	76,047
Article 438 (e)	**19**	**Market risk**	**1,445,038**	**1,030,143**	**115,603**
	20	Of which the standardised approach	1,445,038	1,030,143	115,603
	21	Of which IMA	-	-	-
Article 438 (e)	22	Large exposures	**0**	46,825	**0**
Article 438 (f)	**23**	**Operational risk**	**3,506,463**	**3,606,401**	**280,517**
	24	Of which basic indicator approach	-	-	-
	25	Of which standardised approach	3,506,463	3,606,401	280,517
	26	Of which advanced measurement approach	-	-	-
Article 437 (2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	509,425	466,417	40,754
Article 500	28	Floor adjustment			
	29	**Total**	**29,348,940**	**27,882,101**	**2,347,915**

7 Segment reporting

Operating segment is a separable component of the Group engaged in business activity, generating income and incurring expenses (including those on intragroup transactions between segments), whose operating results are regularly reviewed by the Management Board of dominant unit 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 operating segments – Institutional Banking and Consumer Banking. The valuation of segment's assets and liabilities as well as calculation of its results is based on Group's accounting policies, including intragroup transactions between segments.

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

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

Institutional Banking

Within the Institutional Banking segment, the Group offers products and provides services to commercial entities, municipalities and public sector. Apart from traditional banking services consisting in credit and deposit activities, the segment provides services in the area of cash management, trade finance, brokerage and custody services in respect of securities. It also offers treasury products on financial and commodity markets. In addition, the segment offers the investment banking services on the local and international capital markets, including advisory services as well as obtaining and underwriting financing through public and non-public offerings. The activities also comprise proprietary transactions on the equity, debt and derivative instruments' markets.

Consumer Banking

Within the Consumer Banking segment the Group provides products and financial services to individual clients, micro enterprises and individual entrepreneurs that are within the framework of Citibusiness offer. Besides managing bank accounts and providing extensive credit and deposit products, the Group offers cash loans, mortgage loans and credit cards. It also provides asset management services and acts as an agent in investment and insurance products sale.

Consolidated income statement of the Group by business segment

For the period	01.01. – 30.09.2018			01.01. – 30.09.2017*		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Net interest income	379,987	448,498	828,485	358,912	432,895	791,807
Internal interest income, including:	(29,062)	29,062	-	(20,361)	20,361	-
Internal income	-	29,062	29,062	-	20,361	20,361
Internal expenses	(29,062)	-	(29,062)	(20,361)	-	(20,361)
Net fee and commission income	213,796	201,712	415,508	214,585	221,278	435,863
Dividend income	1,430	8,006	9,436	1,477	7,720	9,197
Net gain/(loss) on trading financial instruments and revaluation	265,966	21,229	287,195	223,648	22,808	246,456

For the period	01.01. – 30.09.2018			01.01. – 30.09.2017*		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income**	87,727	-	87,727	28,803	-	28,803
Net gain/(loss) on other equity and other investments measured at fair value through income statement***	10,164	-	10,164	3,377	-	3,377
Net gain/(loss) on hedge accounting	3,682	-	3,682	6,445	-	6,445
Net other operating income	5,401	(158)	5,243	15,440	(15,394)	46
General administrative expenses	(377,450)	(470,226)	(847,676)	(379,169)	(478,539)	(857,708)
Depreciation and amortization	(13,661)	(40,493)	(54,154)	(14,793)	(39,252)	(54,045)
Profit on sale of other assets	(836)	-	(836)	10,519	25	10,544
Net impairment on financial assets and provisions for off–balance sheet commitments****	(3,316)	(48,423)	(51,739)	(19,370)	(45,384)	(64,754)
Operating income	**572,890**	**120,145**	**693,035**	**449,874**	**106,157**	**556,031**
Share in net profits of entities valued at equity method	9	-	9	271	-	271
Tax on certain financial institutions	(44,891)	(16,318)	(61,209)	(43,132)	(16,246)	(59,378)
Profit before tax	**528,008**	**103,827**	**631,835**	**407,013**	**89,911**	**496,924**
Income tax expense			(145,139)			(124,719)
Net profit			**486,696**			**372,205**

** 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 'Net gain on debt investment securities available-for-sale' in accordance with IAS 39.*
****Corresponds to the 'Net gain on equity investment instruments available-for-sale' in accordance with IAS 39.*
*****Corresponds to the 'Net impairment due to financial assets and provisions for granted financial liabilities and guarantees' in accordance with IAS 39.*

State as at	30.09.2018			31.12.2017*		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Total assets	**37,800,592**	**7,362,754**	**45,163,346**	**35,906,089**	**7,131,507**	**43,037,596**
Total liabilities and shareholders' equity, including:	**31,325,945**	**13,837,401**	**45,163,346**	**30,134,111**	**12,903,485**	**43,037,596**
Liabilities	26,079,143	12,240,864	38,320,007	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.*

8 Activities of the Group

1. Institutional Banking

1.1. Summary of segment results

PLN '000	Q3 2018	Q3 2017*	Change	
			PLN '000	%
Net interest income	128,264	125,623	2,641	2.1%
Net fee and commission income	68,808	67,778	1,030	1.5%
Net income on dividends	398	249	149	59.8%
Net gain/(loss) on trading financial instruments and revaluation	87,289	86,419	870	1.0%
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	8,534	12,942	(4,408)	(34.1%)
Net gain/(loss) on equity and other instruments measured at fair value through income statement	3,372	-	3,372	-
Net gain/(loss) on hedge accounting	-	2,891	(2,891)	(100.0%)
Net other operating income	385	4,928	(4,543)	(92.2%)
Total income	**297,050**	**300,830**	**(3,780)**	**(1.3%)**
General administrative expenses and depreciation	(110,990)	(112,538)	1,548	(1.4%)
Profit on sale of other assets	-	10,489	(10,489)	(100.0%)

PLN '000	Q3 2018	Q3 2017*	Change	
			PLN '000	%
Net impairment on financial assets and provisions for off–balance sheet commitments	3,938	(7,611)	11,549	(151.7%)
Share in net profits of entities valued at equity method	(246)	6	(252)	-
Tax on certain financial institutions	(13,966)	(13,783)	(183)	1.3%
Profit before tax	**175,786**	**177,393**	**(1,607)**	**(0.9%)**
Cost/Income	**37%**	**37%**		

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

The key highlights that impacted the gross profit of the Institutional Banking segment for the third quarter of 2018 compared to the corresponding period of the previous year were as follows:

- an increase in net interest income due to growing credit volume by 10% YoY;
- an increase in net fee and commission income in transactional and custody business;
- a slightly decrease in operating expenses and overheads including depreciation expenses
- a decrease in operating expenses and overheads including depreciation expenses by PLN 12.5 million as a result of lower bonuses and rewards;
- A decrease in net impairment write-offs due to lower default risk and repayment of part of loan portfolio.

1.2. Institutional Bank and the Capital Markets

Institutional Bank

In the area of institutional banking, the Bank provides comprehensive financial services to the largest Polish companies and strategic companies with a large potential of growth, and also to the largest financial institution and to public sector entities.

As at the end of the third quarter 2018, the number of institutional clients (which include strategic clients, global clients and commercial bank clients) was 5.9 thousand, i.e. declined by 5% as compared to the third quarter 2017, when their number was 6,200.

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 Bank 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 rely on the combination of its expertise and experience as well as on collaboration within the global Citigroup structure.

The table below presents balances of assets and liabilities in individual segments according to the management reporting format.

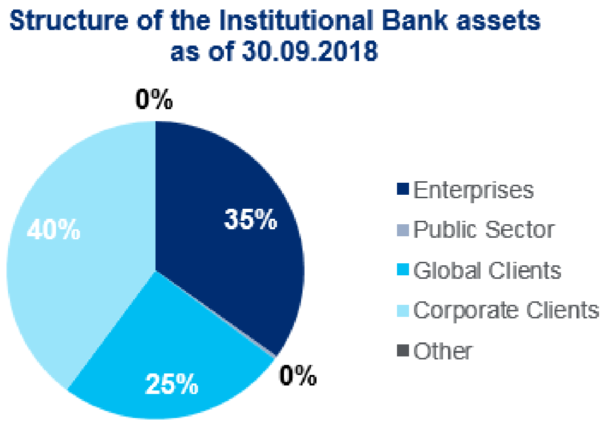
Assets [1)]

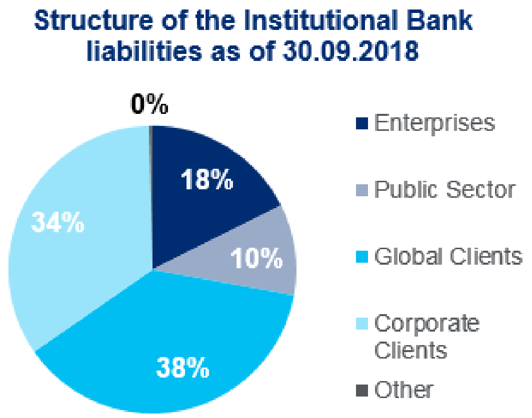
PLN million	30.09.2018	31.12.2017	30.09.2017	Change		Change	
				(1)/(2)		(1)/(3)	
	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises [2)], including:	4,783	4,494	4,559	289	6%	224	5%
SMEs	1,531	1,671	1,790	(140)	(8%)	(259)	(14%)
MMEs	3,252	2,823	2,769	429	15%	483	17%
Public Sector	49	66	118	(17)	(26%)	(69)	(58%)
Global Clients	3,438	3,271	3,050	167	5%	388	13%
Corporate Clients	5,471	4,819	5,128	652	14%	343	7%
Other [3)]	-	2	3	(2)	(100%)	(3)	(100%)
Total Institutional Banking	**13,741**	**12,652**	**12,858**	**1,089**	**9%**	**883**	**7%**

Liabilities [1)]

PLN million	30.09.2018	31.12.2017	30.09.2017	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	PLN million	%	PLN million	%
Enterprises [2)], including:	3,743	3,865	3,678	(122)	(3%)	65	2%
SMEs	2,068	2,129	2,119	(61)	(3%)	(51)	(2%)
MMEs	1,675	1,736	1,559	(61)	(4%)	116	7%
Public Sector	2,166	3,313	3,626	(1,147)	(35%)	(1,460)	(40%)
Global Clients	7,956	7,745	7,435	211	3%	521	7%
Corporate Clients	7,278	5,856	6,015	1,422	24%	1,263	21%
Other [3)]	74	71	75	3	4%	(1)	(1%)
Total Institutional Banking	**21,217**	**20,850**	**20,829**	**367**	**2%**	**388**	**2%**

1) On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.
2) Enterprises are classified as clinets, whose annual turnover is between PLN 8 milion and PLN 150 milion (SMEs) or PLN 150 milion and PLN 1.5 bilion (MMEs).
3) 'Other' include, among others, clients subject to restructuring and clients of Handlowy-Leasing Sp. z o.o.





Key transactions and successes of Corporate and Commercial Bank in the third quarter 2018:

1. Increased presence in the area of banking services:
   - Takeover from another bank of a vendor financing program of a client from the electronic sector;
   - Takeover from another bank of processing of international transfers of a client from the automotive sector;
   - Takeover of all the banking operations of a leading food company;
   - Acquisition of a mandate for provisions of comprehensive banking service to a leading company from the automotive sector;
   - Commencement of cooperation with an international corporation (sales over PLN 500 million) that manufactures boilers and heating systems. Cooperation will cover all the services for that corporation.
2. Active support to clients in the area of lending activities:
   - Granting short-term financing for PLN 95 million to a leading company from the telecom sector;
   - Granting loans and loan commitments for PLN 127 million to clients from the commercial banking segment.
3. Increasing presence in transactional banking by:
   - Increasing a revolving line for letters of credit in the amount of PLN 18.3 million to PLN 64 million for production of parts and accessories for engine-propelled vehicles, except for motorbikes;
   - Providing vendor financing for PLN 100 million for retail sales of footwear and leather apparel via dedicated shops;
   - Granting a guarantee for PLN 18.3 million for repairs and maintenance of household goods and household and garden equipment.

- In addition, the Bank actively supports clients in the area of development of e-commerce and digital solutions. In September 2018, an E-commerce Standard conference was held - the oldest regular conference dedicated to effective online sale of products and services . The agenda included discussions on the current challenges faced by e-commerce managers from large and medium-sized companies. Once more, Citi Handlowy was a partner of the event. Simultaneously, in the same month, an "EMEA Digital Leaders" conference was organized by Citi Commercial Bank in London. This two-day event gathered more than 70 participants from 20 countries, including clients of the

Commercial Bank Division.

Activity and business achievements of the Treasury Division

- CitiFx Pulse Platform, in the market since 2005, is perceived as a highly-trusted solution by our clients. This is confirmed by the fact that 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.

- In the FX area, the Bank offers an innovative solution dedicated to the eCommerce sector. It provides fully automated quotations and sales in many currencies, while, simultaneously, reducing the currency risk of the Bank's client. Via APIs, this 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.

- As far as the debt securities market is concerned, in the third quarter 2018 the Bank arranged a syndicated issue of 7-year bonds for the European Investment Bank.

Transactional banking

Citi Handlowy is a leading provider of transactional banking services. For the five 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;
- Card products;
- 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

Following the advanced technology trends in the banking sector and in response to comprehensive needs of clients that use electronic and mobile solutions, the Bank has been improving the systems it provides to its clients. The most important initiative was adaptation to changes connected with the split payment scheme, in use since 1 July 2018. In addition, works were continued to streamline the payment processing process and the commercialization of eWnioski (online document exchange platform) was continued. The plans for fourth quarter 2018 assume that next solutions will be launched to make the everyday use of accounts and products easier. For example, the pilot implementation of the CitiDirect BE App mobile application has been planned. Ultimately, it will replace the mobile solution that is offered to business clients at present.

In the third quarter 2018, the Bank processed over 6 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. 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.

Card products

In the third quarter 2018, the Bank changed the graphic layout and the structure of the CitiManager platform, which is used for management of card products. The changes were mainly related to the Card Program Administrators and were intended to improve comfort when using the Business Card system. After the changes, the look of the platform for Administrators is now similar to the current version for Card Holders. In addition, navigation has been simplified and access to all key functionalities is now easier and faster. Simultaneously, the Bank implemented contactless payments for business clients.

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 in companies and business with higher capital needs. Liquidity management products include:

- Consolidated account;
- Real cash pooling;
- Netting.

Cross border (international) transfers

The Bank has a comprehensive and very broad range of settlements in over 130 currencies worldwide. Responding to client needs, the Bank promoted a multi-currency account dedicated to business that develop their commercial, import and export operations. Cross border payments in exotic currencies (such as: Chinese yuan, Mexican peso, Indian rupee or Brazilian real) are a unique solution in Poland's market.

Payments and receivables: Direct Debit, 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 cash processing centers. In addition, the Bank offers open-deposit services through more than 4,500 outlets, in partnership with Poczta Polska S.A.

In addition to cash deposits, clients of the Bank can 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 the third quarter 2018, clients of the Bank actively used a EU-funding advisory program and related credit products.

Among the clients, the most popular were sub-activities dedicated to businesses under Smart Growth Operational Program 2014-2020 and Regional Operational Programs.

Trade finance products

The Bank maintains its position as a leading financial institution in the area of supplies and procurement financing. The assets of the Bank relating to this area of operations increased by 43% in the third quarter 2018 as compared to the level achieved in the same period of 2017. The digitization ratio for trade finance transactions has also increased - at least 90% of transactions are initiated via the electronic platform.

Custody services

The Bank is the leader in Poland's market of custody institutions. The Bank offers custody services to both foreign institutional investors and local financial institutions, and in particular insurers. The Bank provides depositary services to pension funds and investment funds.

As at 30 September 2018, the Bank maintained over 9,000 securities accounts and collective accounts.

At the same time, the Bank was the depository for open-end pension funds: Aviva OFE Aviva BZ WBK, Nationale - Nederlanden OFE, Pekao OFE, voluntary pension funds: Nationale - Nederlanden DFE, Generali DFE, and the employee pension fund PFE 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.

Brokerage activities

The Group runs brokerage activities in the capital market via Dom Maklerski Banku Handlowego S.A., a wholly-owned subsidiary of the Bank.

As at the end of the third quarter 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% of the shares listed in its main equity market.

In the third quarter 2018, DMBH was the intermediary in in-session transactions accounting for 8.2% 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 8.8 billion and declined by 3.7% as compared to the same period last year, with comparable turnovers on the WSE. At the same time, the structure of in-session turnovers on the WSE 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. In the third quarter 2018, the value of in-session transactions executed by DMBH increased by 28% from the previous quarter, while the turnovers on the WSE increased by 12% in the same period.

The number of investment accounts maintained by DMBH was 14,200 as at the end of the third quarter 2018, and increased by 3.5% as compared to the same period in 2017 and by 0.8% as compared to the end of the previous quarter. The growth of the number of investment accounts was still fueled by a regular increase of the number of agreements concluded for foreign market services provided by the CitiFX Stocks platform.

Summary Income Statement and Balance Sheet

Company's Name	Headquarter	% of authorized capital held by the Bank	Total assets 30.09.2018	Total equity 30.09.2018	Net financial result for the period of 01.01-30.09.2018
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	664,423	98,784	1,213

Leasing activities

Leasing products continue to be offered by the Bank's Group and are made available as part of the "open architecture", i.e. the Bank's partnership with organizations from outside its Group. .

Summary Income Statement and Balance Sheet

Company's Name	Headquarters	% of authorized capital held by the Bank	Total assets 30.09.2018	Total equity 30.09.2018	Net financial result for the period of 01.01–30.09.2018
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	22,220	22,066	(363)

2. Consumer Banking

2.1. Summary of the segmental results

PLN '000	Q3 2018	Q3 2017*	Change	
			PLN '000	%
Net interest income	152,460	147,835	4,625	3.1%
Net fee and commission income	66,288	78,419	(12,131)	(15.5%)
Dividend income	88	-	88	-
Net gain/(loss) on trading financial instruments and revaluation	7,163	7,106	57	0.8%
Net other operating income	(4,041)	(3,709)	(332)	9.0%
Total income	**221,958**	**229,651**	**(7,693)**	**(3.3%)**
General administrative expenses and depreciation	(164,509)	(166,294)	1,785	(1.1%)
Profit on sale of other assets	-	25	(25)	(100.0%)
Net impairment on financial assets and provisions	(23,153)	(14,437)	(8,716)	60.4%

PLN '000	Q3 2018	Q3 2017*	Change	
			PLN '000	%
for off–balance sheet commitments				
Tax on certain financial institutions	(5,310)	(5,484)	174	(3.2%)
Profit before tax	**28,986**	**43,461**	**(14,475)**	**(33.3%)**
Cost/Income	**74%**	**72%**		

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

The key highlights that impacted the gross profit of the Consumer Banking Segment in third quarter 2018 when compared to the corresponding period of 2017 were as follows:

- an increase in interest income as a result of the credit portfolio growth (+6% yoy) partially offset by higher interest expenses, which was achieved due to the substantial increase in the deposit balances (+8% yoy) due to the promotion of new client acquisition in the affluent segment (an increase in the amount of clients +11% yoy);
- a decrease in net fee and commission income due to decrease of investment products sale as a result of weaker market sentiment;
- a decrease in operating expenses as a result of costs base optimization initiatives, partially reinvest in marketing and technology;
- an increase in net impairment write-offs due to higher negative results in net impairment losses as a result of new account balances with impairment recognized along with the increase in the average age of this portfolio.

2.2. Selected business data

PLN '000	Q3 2018	Q2 2018	Q3 2017	Change QoQ	Change YoY
Number of individual customers	691.2	691.5	688.3	(0.2)	3.0
Number of current accounts, including:	461.0	460.8	461.4	0.2	(0.4)
number of operating accounts	101.1	101.1	97.7	0.1	3.4
Number of saving accounts	141.1	141.8	145.4	(0.7)	(4.3)
Number of credit cards	687.9	691.7	701.8	(3.8)	(13.9)
Number of debit cards	246.8	247.4	249.5	(0.6)	(2.7)

Net receivables from individual clients – management view

PLN '000	30.09.2018 (1)	31.12.2017* (2)	30.09.2017* (3)	Change (1)/(2)		Change YoY	
				PLN '000	%	PLN '000	%
Unsecured receivables, including:	5,464,763	5,323,199	5,282,531	141,564	2.7%	182,232	3.4%
Credit cards	2,683,538	2,535,457	2,505,181	148,081	5.8%	178,357	7.1%
Cash loans	2,724,897	2,735,544	2,728,099	(10,647)	(0.4%)	(3,202)	(0.1%)
Other unsecured receivables	56,328	52,198	49,251	4,130	7.9%	7,077	14.4%
Mortgage loans	1,607,090	1,473,927	1,412,185	133,163	9.0%	194,905	13.8%
Net client receivables	**7,071,853**	**6,797,126**	**6,694,716**	**274,727**	**4.0%**	**377,137**	**5.6%**

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

2.3. Key Business Highlights

Bank accounts

- **Current accounts**

The number of personal accounts was 461,000 as at the end of the third quarter 2018 (as at the end of the third quarter 2017 it was 461,000), of which 261,000 PLN-denominated accounts and 200,000 foreign currency accounts. As at the end of the third quarter 2018, the total balance on the current accounts was over PLN 6.01 billion , i.e. increased by 5.3% as compared to the same period last year. This increase was achieved thanks to the Bank's strategy, focused on the acquisition of clients with medium and high income and on the enhancement of relationships with existing clients.

- **Savings accounts**

The number of savings accounts was 141,000 as at the end of the third quarter 2018. The total balance of funds accumulated on those accounts amounted to PLN 2.7 billion, as compared to 145,000 savings accounts with the total balance of PLN 2.8 billion in the same period last year.

- **Changes in the offering**

In the area of individual clients, the Bank continues to reward new Citi Priority, Citigold and Citigold Private Client accounts with:

- Promotional interest rates on term deposits;
- Promotional interest rates on savings accounts;
- Cashback for new clients in the Citigold and Citigold Private Client segments;
- Citi Priority promotional online account, where clients who use the account on the Internet have access to all primary functionalities without charge.
- Recommendation program for Citi Priority, Citigold and Citi Private Client segments.

In August 2018, many changes were made in connection with the implementation of the Primary Payment Account Act. As part of them, the Primary Payment Account was added to the product range. It is dedicated to clients who have had no bank account yet. The client documentation was also modified.

On 8 August 2018, an adjusted Table of Fees and Commission for Accounts and Credit Facility for Individual Clients came into force. The main changes include:

- Simplified conditions of use of Citi Priority accounts without charge - for new clients;
- Names of representative fees and services adjusted to meet the requirements of the Act implementing the Primary Payment Account.

Credit cards

As at the end of the third quarter 2018, the number of credit cards was 687,900 .

The total debt on the credit cards was PLN 2.7 billion as at the end of the third quarter 2018, which means that the Bank was still the leader in the credit card market, in terms of the credits granted on the credit cards, with a market share of 25.4%, according to data as at the end of September of 2018.

A high level of activation and transactions was maintained for newly-acquired clients. In the third quarter 2018, the acquisition structure of credit cards was dominated by the Citi Simplicity card, with a 93% share in acquisition.

Cash loans and cash loans associated with credit card accounts

The balance of unsecured loans (cash loans and cash loans on credit card accounts) was PLN 2.7 billion as at the end of the third quarter 2018. In the third quarter 2018, the total sales of unsecured loans, including cash loans for credit card holders, amounted to PLN 401 million.

Mortgage products

In the third quarter 2018, the Bank was still selling mortgage loans via its own sales channels and credit agencies. The mortgage loans were constantly dedicated to selected client segments, i.e. Citigold Private Client, CitiGold and Citi Priority - all the newly-originated mortgage and home equity loans were granted in those client segments.

The mortgage products sold in the third quarter 2018 exceeded PLN 120 million. As at the end of that period, the mortgage portfolio amounted to PLN 1.6 billion.

Insurance and investment products

As at the end of the third quarter 2018, the funds under management as part of investment products (including insurance products, without dual currency investments) acquired by retail clients via the Bank were % higher than as at the of the third quarter 2017.

As part of cooperation with DMBH, in the third quarter 2018 the Bank took part in 4 subscriptions of investment certificates issued by closed-end investment funds. As far as structured products are concerned, the Bank executed 24 subscriptions of structured notes in that period. Those notes were denominated in PLN (14 subscriptions), USD (8) and EUR (2).

Development of distribution channels

Online banking

The online platform of the Bank for retail clients is built in a responsive technology, i.e. it aligns itself with a device used by the 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 instalments or buy insurance products by themselves. In addition, a new documentation management module has been added, which enable its users to send correspondence, to accept agreements and to download certificates from home. In the next few months, the online channel will be equipped with a transactional module for investment funds and an option to create and update an investment profile, in accordance with MIFID II.

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 30-day period, was 330,000 as at the end of the third quarter 2018, and the share of active users of Citibank Online in the entire portfolio of clients of the Bank was 48.5% as at the same date.

Simultaneously, as at the end of the third quarter 2018, digital users accounted for 71% of all transactionally-active clients.

In the third quarter 2018, the share of the credit cards sold via the online channel was about 34% of the whole credit card acquisition at the Bank.

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, which is highly appreciated by clients.

As at the end of the third quarter 2018, the number of active users of mobile banking, i.e. those who used mobile banking at least once in every 30-day period via the application or Citibank online on their phones in responsive technology, exceeded 144,000, i.e. increased by about 25% as compared to the third quarter 2017.

The share of active users of mobile banking in the retail client portfolio of Citi Handlowy was 21%, i.e. increased by 1 p.p. as compared to the same period in 2017.

Indirect and Direct Customer Acquisition

- **Smart Ecosystem**

In the area of branch network, Citi Handlowy continues its client-reaching strategy that is based on different types and formats of points of contact, aligned with a target client group. The acquisition and service of clients from the Citigold Private Client and Citigold segment are carried out by Personal Assistants in CPC and Citigold Centers, situated in the 9 largest cities in Poland. Simultaneously, the Bank is still developing remote service processes, which enable it to offer its clients more and more transactions that can be executed without the need to visit a brick and mortar branch.

Additionally, the Bank, via the structures of the Universal Bankers retail distribution channel, is present in places most visited by prospective clients, operating on the basis of stands and mobile sales points in popular shopping centers, cinemas, sector fairs and leisure resorts. RMs meet with clients also during famous cultural and sports events and at their workplace. Cooperation with financial agencies has been growing at a rapid pace too. As a result, a significantly higher number of clients can use the credit offer of the Bank. In addition, cooperation with new or existing business partners is expanding thanks to regular contests or joint participation in events.

At the same time, the Bank is focused on activities to build a light distribution network, with the maximum utilization of remote channels for client acquisition and servicing. At present, Citi Handlowy has three Smart Mini outlets and a summer version of that outlets.

- **Citigold and Citigold Private Client outlets**

As at the end of the third quarter 2018, the network of outlets dedicated to affluent clients included 10 branches, divided into three outlet types: Smart HUB Gold, HUB Gold and Investment Centre.

In the third quarter 2018, the Bank vigorously continued activities to implement the strategy of transformation of its branch network in the largest cities in Poland. In September 2018, a HUB GOLD branch was opened for clients in a modern office building in Łódź (Ogrodowa Office).

This project was coupled with relocation of the HUB GOLD branch operating in Łódź. Those activities were to provide Clients with advanced and prestigious service space, situated in a modern office building in city centers. Those changes are to ensure that Clients are offered services in accordance with the highest standards of privacy, prestige and comfort when they build their relationships with the Bank. Service in branches is based on operating and sales solutions that use advanced technologies and individualized approach, with support by the dedicated Relationship Manager.

Changes to the network of outlets

Number of branches and other Points of Sale/touch points

	30.09.2018 (1)	31.12.2017 (2)	30.09.2017 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	**23**	**26**	**26**	**(3)**	**(3)**
HUB Gold	7	8	8	(1)	(1)
Smart HUB Gold	2	2	2	-	-
Investment Center	1	1	1	-	-
Smart branch	12	14	14	(2)	(2)
Corporate branch	1	1	1	-	-
Other POS:					
Smart Mini	2	4	3	(2)	(1)

** Branches classified according to a type of provided services into: HUB Gold (branches with separate Citigold customer service zones), Blue (branches without separate Citigold zones), Investment Center and Smart.*

9 Rating

As of end of the third quarter 2018, the Bank had full ratings awarded by Fitch Ratings ("Fitch").

On October 12, 2018 Fitch as part of the annual review, affirmed all ratings of the Bank in 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)

** Viability rating is the view of the intrinsic creditworthiness of an institution, independent of external factors.*

In its justification the Fitch has stated that the Bank's ratings reflect a stable business model, conservative approach to credit risk, strong capital position, sound asset quality, solid profitability and robust funding and liquidity. At the same time Handlowy's rating also reflects its higher capital buffer than required by the regulator and prudential business model.

10 Financial instruments disclosure

Fair value of financial assets and liabilities

The table below presents the fair value of financial assets and liabilities valued at amortized cost in consolidated statement of financial position.

PLN '000	30.09.2018		31.12.2017*	
	Balance value	Fair value	Balance value	Fair value
Financial assets				
Cash and balances with the Central Bank	661,547	661,547	462,126	462,126
Amounts due from banks	880,079	880,076	836,774	836,774
Amounts due from customers	21,604,151	21,548,442	19,849,033	19,809,377
Financial liabilities				
Amounts due to banks	2,365,393	2,365,407	1,568,376	1,568,474
Amounts due to customers	33,372,336	33,370,559	32,136,698	32,135,871

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

Valuation methods and assumptions used for the purposes of fair value

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

- The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are tested and approved before application. As far as possible, only observable data are used in the models, although in some areas, the Bank's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.
  The Group applies the following methods of measurement of particular types of derivative instruments:
  - FX forwards – discounted cash flows model;
  - options – option market-based valuation model;
  - interest rate transactions – discounted cash flow model;
  - futures – current quotations.
- For valuation of securities' transactions current quotations are used. In case of lack of quotations, adequate models based on discount and forward curves, including decrease of credit spread, if needed, are used for valuation.
- The fair value of other assets and financial liabilities (excluding described above) are estimated in accordance to commonly accepted models of valuation based on discounted cash flow analysis, taking into account fluctuations in market interest rates and changes in margins during the financial period.

Fair value included in consolidated statement of financial position

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

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

  The active market includes stock and brokerage quotes and quotes in pricing services type systems, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include 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 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 non-market parameters.

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

As at 30 September 2018

PLN '000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	3,157,628	1,038,787	-	4,196,415
derivatives	581	1,038,786	-	1,039,367
debt securities	3,144,861	1	-	3,144,862
capital instruments	12,186	-	-	12,186
Debt investment financial assets measured at fair value through other comprehensive income*	15,487,391	-	-	15,487,391
Equity and other instruments measured at fair value through income statement**	1,245	-	51,164	52,409
Financial liabilities				
Financial liabilities held-for-trading	121,287	1,144,779	-	1,266,066
short sale of securities	121,043	-	-	121,043
derivatives	244	1,144,779	-	1,145,023

**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.*

As at 31 December 2017*

PLN'000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	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
Debt securities available-for-sale	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	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 30th of September 2018 the amount of financial assets classified to the Level III includes the share of PLN 31,943 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 Group's strategy, presented equity investments will be gradually reduced except for selected strategic investments in "infrastructure companies" that provide services to the financial sector. Particular entities will be sold at the most suitable time under market conditions.

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	01.01.-30.09.2018 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	9,916
As at the end of period	**51,164**

PLN '000	01.01.-31.12.2017* Financial assets available-for-sale Equity investments
As at January	**18,965**
Valuation of shares	4,097
As at December	**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 the 9 month period of 2018 the Group has made no transfers between levels of instruments fair value due to established method of setting fair value.

In the 9 month period of 2018 the Group has not made any changes in classification criteria of financial instruments (presented in the consolidated statement of financial position at fair value) to each category reflecting the fair value (level I, level II, level III).

In the 9 month period of 2018 the Group has not made any changes in financial assets classification that could result from asset's purpose or usage change.

In the 9 month period 2018 there was no change in the business or economic situation, that could influence the fair value of Group's financial assets or liabilities, independently whether these assets and liabilities were presented in fair value or amortized cost.

As at 30 September 2018 there was change in fair value of financial instruments classified to the available-for-sale portfolio in relation to the end of 2017 as a result of increase of securites held for trading portfolio.

11 Impairment and provisions

PLN '000	Stage 1	Stage 2	Stage 3	Total
Loss allowance - amounts due from banks				
Loss allowance as at 31 December 2017	**-**	**-**	**-**	**(1,111)**
Impact of adopting IFRS 9	-	-	-	(1,236)
Loss allowance as at 1 January 2018	**(2,223)**	**(124)**	**-**	**(2,347)**
Transfer among stages	(180)	180	-	-
Creations/Releases in the period through the income statement	(1,462)	(56)	-	(1,518)
Foreign exchange and other movements	(205)	-	-	(205)
Loss allowance as at 30 September 2018	**(4,070)**	**-**	**-**	**(4,070)**

PLN '000	Stage 1	Stage 2	Stage 3	Total
Loss allowance - amounts due to 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 among stages	(1,222)	1,839	(618)	(1)
Creations/Releases in the period through the income statement	(1,971)	828	(52,639)	(53,782)
Amounts written off	-	-	56,380	56,380
Foreign exchange and other movements	(181)	(171)	(413)	(765)
Loss allowance as at 30 September 2018	**(58,141)**	**(74,351)**	**(534,405)**	**(666,897)**

**As at 30 September 2018, the Group did not identify POCI assets (purchased or originated credit-impaired assets").*

12 Provision and asset due to differed income tax

PLN '000	30.09.2018	31.12.2017
Asset due to differed income tax	429,890	371,401
Provision due to differed income tax	237,964	195,497
Net asset due to differed income tax	**191,926**	**175,904**

Provisions and assets due to differed income tax are show in the consolidated statement of financial position after compensation.

13 Purchase and sale transactions of tangible assets

In the period 1 January – 30 September 2018 the value of purchased by the Group components of "fixed assets" equaled PLN 53,783 thousand (in 2017: PLN 92,288 thousand); the value of sold components equals PLN 0.00 thousand (in 2017: PLN 22,619 thousand).

As at 30 September 2018 the Group has no significant contract liabilities due to future purchase of tangible assets.

14 Default or breach due to received credit agreement in respect of which there were no corrective action until the end of the reporting period

Between 1 January and 30 September 2018 in the Group has been no occurrence of default or breach due to received credit agreement.

15 Seasonality or periodicity of business activity

The business activity of the Group is not significantly influenced by seasonal or cyclical factors.

16 Issue, redemption and repayment of debt and equity securities

In the 9 month period of 2018 no issue, pay back or repurchase of debt or equity securities had place.

17 Paid or declared dividends

Dividends paid for 2017

The Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter WZ) adopted a resolution on distribution of the net profit for 2017 on June 8, 2018. The Meeting resolved to appropriate the amount of PLN 537,010,956.00 for the dividend payment, which means that the dividend per one ordinary share is PLN 4,11. The dividend has cash character and the number of shares covered by the dividend equals to 130,659,600.

Simultaneously, the WZ resolved to set the date of the right to the dividend for June 18, 2018 (the day of the dividend) and the day of the dividend payment for June 25, 2018 (the day of the dividend payment) and at that day the dividend was paid.

18 Major events after the balance sheet date not included in the financial statements

As at 30 September 2018 there were no major events after the balance sheet date not included in the financial statement that could have a significant influence on the net result of the Group.

19 Changes in granted financial and guarantee commitments

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

PLN '000	State as at		Change	
	30.09.2018	31.12.2017	PLN '000	%
Contingent liabilities granted				
financial	14,696,722	14,441,141	255 581	1.8%
Import letters of credit issued	215,633	148,607	67 026	45.1%
Credit lines granted	14,481,089	14,292,534	188 555	1.3%
guarantees	2,508,489	2,375,341	133 148	5.6%
Guarantees granted	2,465,552	2,312,023	153 529	6.6%
Export letters of credit confirmed	-	19,376	(19 376)	(100.0%)
Other	42,937	43,942	(1 005)	(2.3%)
	17,205,211	**16,816,482**	**388 729**	**2.3%**
Contingent liabilities received				
guarantees (guarantees received)	18,501,506	18,142,380	359 126	2.0%
	18,501,506	**18,142,380**	**359 126**	**2.0%**
Contingent transactions due to FX, securities and derivatives (granted/received liabilities)				
Current*	5,044,831	1,289,429	3 755 402	291.2%
Forward **	211,812,688	180,955,411	30 857 277	17.1%
	216,857,519	**182,244,840**	**34 612 679**	**19.0%**

**Foreign exchange and securities transactions with current value date*
*** Derivatives: FX, interest rate transactions and options*

20 Changes in Group's structure

In the third quarter of 2018 the structure of the Group has not changed as a result of merger, obtaining or losing control of subsidiaries, long-term investments, division, restructuring and discontinuation of activity.

21 Achievement of 2018 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2018.

22 Information about shareholders

As at the day of publishing the Interim Statement for the third quarter of 2018 the list of shareholders who held directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital is as follows:

	Value of shares (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**

In the period between publishing the interim financial statements for the first quarter 2018, consolidated financial report for the first half of 2018 and publishing this report for the third quarter 2018 the structure of major shareholdings has not undergone any changes.

23 Ownership of issuer's shares by members of the Management Board and Supervisory Board

According to the best knowledge of the Bank – the dominant entity, the number of Bank's shares held by members of Management and Supervisory Board is presented below:

Name and surname	Function	Number of shares on day of publishing the Interim Financial Statement for the third quarter 2018	Number of shares on day of publishing the Consolidated Financial Report for the first half 2018	Number of shares on day of publishing the Interim Financial Statement for the first quarter 2018
Andrzej Olechowski	Chairman of Supervisory Board	2,200	2,200	2,200
Total		**2,200**	**2,200**	**2,200**

Managing and supervising officers have not declared any options for Bank's shares.

24 Information on pending court proceedings

In the third quarter of 2018 there was no single proceeding regarding receivables and liabilities of the Bank or its subsidiary pending in court, public administration authority or an arbitration authority, the value of which would equal at least 10% of Bank's equity.

The total value of all legal proceedings regarding receivables, with the participation of the Bank and its subsidiaries, in the third quarter of 2018 did not exceed 10% of the Bank's equity.

The total value of all legal proceedings regarding liabilities, with the participation of the Bank and its subsidiaries, in the third quarter of 2018 did not exceed 10% of the Bank's equity.

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

In the case of legal proceedings involving the risk of cash outflow due to fulfillment of the obligation created by the Group are adequate reserves.

As at 30 September 2018, the Bank was, among others, a party to 18 court proceedings associated directly with derivative transactions that have not been legally terminated: in 11 proceedings the Bank acted as a defendant and in 7 as a plaintiff. In addition, one cassation proceeding ended legally binding in favor of the Bank (in the case against the Bank) at that time were pending. 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.

In the third quarter 2018 the Group did not make any significant settlement due to court ended with the final judgment.

25 Information about significant transactions with related entities dealt on other than market terms.

In the third quarter of 2018, the Bank and its subsidiaries entered into transactions with related entities. All transactions with related entities were dealt on market terms.

26 Information about guarantee agreements

At the end of the third quarter of 2018, the total value of sureties and guarantees given by the Bank or its subsidiaries to a single entity and its subsidiary did not exceed 10% of the Bank's shareholders' equity.

27 Factors and events which could affect future financial performance of the Bank's Capital Group

The intensified protectionism policy of the U.S., including new tariffs on goods from China, may adversely affect international trade and global growth and possible retaliatory steps by other key players in global trade can increase the slowdown even further. If the trade conflict grows worse, this may have an adverse impact on demand for Polish exports and translate into higher inflation.

Brexit remains the main source of uncertainty, which can trigger volatility in financial markets and economic activity in the European Union. Hard Brexit generates a special risk as it may push the UK's GDP growth path significantly downwards and volatility considerably upwards in the end of first quarter/beginning of second quarter 2019, if the European Union and the UK fail to reach any agreement. One of the consequences of Brexit may be a decrease in EU funds available to Poland and other countries from Central Europe in the next EU financial framework. This risk can go higher if other countries start thinking of leaving the European Union, e.g. Italy.

The process of monetary policy tightening by main central banks of the world may affect risk appetite in international financial markets. In the scenario of next rapid interest rate hikes in the U.S. and the rising yields of U.S. Treasury bonds, foreign capital may decide to exit emerging markets. In addition, a rapid decline in the balance sheet of the ECB after the asset purchase program is ended could also have a negative impact on demand for assets in the region. As a result, the national 's currency would grow weaker and the interest rates on Treasury and corporate debts would increase.

The stability of financial markets and the inflow of foreign capital to Poland may also suffer in case of deterioration of geopolitical tensions. Intensified conflicts in Syria, Ukraine and Afghanistan and further deterioration in relationships between the U.S. and North Korea and Russia could lead to an increase in risk aversion and a depreciation of the Polish zloty, and could adversely affect foreign investments in Poland and global economic growth.

The uncertainty relating to changes in economic policy in Poland, and in particular future changes of the tax system, can impel Polish companies to postpone investment projects. And declining investments could have a negative impact on the potential of Poland's economy, leading to a lower growth rate over the next few years.

Interim condensed standalone financial statements of the Bank for the third quarter of 2018

Condensed income statement

PLN '000	Third quarter	Third quarter accruals	Third quarter*	Third quarter accruals*
	period from 01.07.18 to 30.09.18	period from 01.01.18 to 30.09.18	period from 01.07.17 to 30.09.17	period from 01.01.17 to 30.09.17
Interest income	316,234	934,046	352,440	994,034
Similar income	15,351	42,005	n/a	n/a
Interest expense and similar charges	(51,492)	(149,402)	(79,832)	(204,668)
Net interest income	**280,093**	**826,649**	**272,608**	**789,366**
Fee and commission income	149,618	453,917	155,019	454,905
Fee and commission expense	(19,694)	(56,126)	(15,422)	(49,399)
Net fee and commission income	**129,924**	**397,791**	**139,597**	**405,506**
Dividend income	**122**	**23,703**	**-**	**32,835**
Net income on trading financial instruments and revaluation	**93,946**	**285,341**	**93,112**	**245,152**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income[a]	**8,534**	**87,727**	**12,942**	**28,803**
Net gain/(loss) on equity and other instruments measured at fair value through income statement[b]	**3,317**	**9,863**	**-**	**3,377**
Net gain/(loss) on hedge accounting	**-**	**3,682**	**2,891**	**6,445**
Other operating income	5,347	29,576	6,171	20,487
Other operating expense	(8,251)	(21,992)	(6,727)	(24,696)
Net other operating income and expense	**(2,904)**	**7,584**	**(556)**	**(4,209)**
General administrative expense	**(253,263)**	**(829,276)**	**(254,440)**	**(840,218)**
Depreciation and amortization	**(16,602)**	**(53,652)**	**(18,399)**	**(53,565)**
Profit on sale of other assets	**-**	**(858)**	**25**	**52**
Net impairment on financial assets and provisions for off–balance sheet commitments[c]	**(19,218)**	**(51,781)**	**(22,060)**	**(61,003)**
Tax on some financial institutions	**(19,276)**	**(61,209)**	**(19,267)**	**(59,378)**
Profit before tax	**204,673**	**645,564**	**206,453**	**493,163**
Income tax expense	**(46,252)**	**(144,646)**	**(44,289)**	**(117,069)**
Net profit	**158,421**	**500,918**	**162,164**	**376,094**

Weighted average number of ordinary shares (in pcs)		130,659,600		130,659,600
Earnings per share (in PLN)		3.83		2.88
Diluted net earnings per share (in PLN)		3.83		2.88

**On 1st. January 2018 Bank 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.*

Condensed statement of comprehensive income

PLN ‘000	Third quarter	Third quarter accruals	Third quarter*	Third quarter accruals*
	period from 01.07.18 to 30.09.18	period from 01.01.18 to 30.09.18	period from 01.07.17 to 30.09.17	period from 01.01.17 to 30.09.17
Net profit	**158,421**	**500,918**	**162,164**	**376,094**
Other comprehensive income, that might be subsequently reclassified to profit or loss				
Net changes in value of financial assets measured at fair value through other comprehensive income[d]	(7,562)	30,483	51,853	134,111
Other comprehensive income, that cannot be subsequently reclassified to profit or loss				
Net actuarial profits on specific services program valuation	**-**	**-**	-	1,883
Total comprehensive income	**150,859**	**531,401**	**214,017**	**512,088**

**On 1st. January 2018 Bank 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.*

Condensed statement of financial position

State as at *PLN '000*	30.09.2018	31.12.2017*
ASSETS		
Cash and balances with the Central Bank	661,547	462,126
Amounts due from banks	879,924	836,166
Financial assets held-for-trading	4,184,229	2,162,040
Debt investment financial assets measured at fair value through other comprehensive income[e]	15,487,391	17,439,439
Shares in subsidiaries[f]	106,084	106,368
Equity and other instruments measured at fair value through income statement[f]	52,098	26,171
Amounts due from customers	21,351,349	19,766,803
Tangible fixed assets	359,261	375,673
Intangible assets	1,371,877	1,351,583
Deferred tax asset	193,040	176,979
Other assets	159,589	158,688
Non-current assets held-for-sale	-	1,928
Total assets	**44,806,389**	**42,863,964**
LIABILITIES		
Amounts due to banks	2,365,284	1,568,261
Financial liabilities held-for-trading	1,252,670	1,351,031
Hedging derivatives	-	50,191
Amounts due to customers	33,459,170	32,172,441
Provisions	37,097	17,871
Current income tax liabilities	36,920	52,340
Other liabilities	861,820	777,211
Total liabilities	**38,012,961**	**35,989,346**
EQUITY		
Ordinary shares	522,638	522,638
Share premium	2,944,585	2,944,585
Revaluation reserve	20,311	(9,376)
Other reserves	2,879,760	2,879,669
Retained earnings	426,134	537,102
Total equity	**6,793,428**	**6,874,618**
Total liabilities and equity	**44,806,389**	**42,863,964**

**On 1st. January 2018 Bank 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.** In 2017 in total shown as 'Equity investments' in accordance with IAS 39.*

Condensed statement of changes in equity

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2018	**522,638**	**2,944,585**	**(9,376)**	**2,879,669**	**537,102**	**6,874,618**
Impact of adopting IFRS 9	-	-	(796)	-	(74,784)	(75,580)
Restated balance as at 1 January 2018	**522,638**	**2,944,585**	**(10,172)**	**2,879,669**	**462,318**	**6,799,038**
Total comprehensive income, including:	-	-	30,483	-	500,918	531,401
Net profit	-	-	-	-	500,918	500,918
Net changes in value of financial assets measured at fair value through other comprehensive income[g]	-	-	30,483	-	-	30,483
Dividends to be paid	-	-	-	-	(537,011)	(537,011)
Transfer to capital	-	-	-	91	(91)	-
Balance as at 30 September 2018	**522,638**	**2,944,585**	**20,311**	**2,879,760**	**426,134**	**6,793,428**

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2017	**522,638**	**2,944,585**	**(215,061)**	**2,867,565**	**604,199**	**6,723,926**
Total comprehensive income, including:	-	-	134,111	1,883	376,094	512,088
Net profit	-	-	-	-	376,094	376,094
Net valuation of available-for-sale financial assets	-	-	134,111	-	-	134,111
Net actuarial gains on defined benefit plan	-	-	-	1,883	-	1,883
Dividends to be paid	-	-	-	-	(591,888)	(591,888)
Transfer to capital	-	-	-	12,311	(12,311)	-
Balance as at 30 September 2017*	**522,638**	**2,944,585**	**(80,950)**	**2,881,759**	**376,094**	**6,644,126**

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2017	**522,638**	**2,944,585**	**(215,061)**	**2,867,565**	**604,199**	**6,723,926**
Total comprehensive income, including:	-	-	205,685	(207)	537,102	742,580
Net profit	-	-	-	-	537,102	537,102
Net valuation of available-for-sale financial assets	-	-	205,685	-	-	205,685
Net actuarial losses on defined benefit plan	-	-	-	(207)	-	(207)
Dividends paid	-	-	-	-	(591,888)	(591,888)
Transfer to capital	-	-	-	12,311	(12,311)	-
Balance as at 31 December 2017*	**522,638**	**2,944,585**	**(9,376)**	**2,879,669**	**537,102**	**6,874,618**

**On 1st. January 2018 Bank 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.*

Condensed summary statement of cash flows

PLN '000	Third quarter accruals period from 01.01.18 to 30.09.18	Third quarter accruals* period from 01.01.17 to 30.09.17
Cash at the beginning of the reporting period	**514,477**	**672,754**
Cash flows from operating activities	806,390	886,697
Cash flows from investing activities	(33,695)	(44,870)
Cash flows from financing activities	(572,947)	(672,712)
Cash at the end of the reporting period	**714,225**	**841,869**
Increase/(decrease) in net cash	**199,748**	**169,115**

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

Condensed additional information

1. Declaration of conformity

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

These interim condensed standalone financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the standalone financial statements of the Bank for the financial year ended 31 December 2017 and interim condensed consolidated financial statement of the Group for the third quarter 2018.

In accordance with Decree of the Ministry of Finance dated 29 March 2018 regarding current and periodic information provided by issuers of securities and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2018, item 757, as amended) the Bank is obliged to publish its financial results for the 9 month period ended 30 September 2018 which is deemed to be the current interim financial reporting period.

2. Significant accounting policies

Interim condensed standalone financial statements of the Bank for the third quarter of 2018 have been prepared in accordance with the Decree by virtue of which the issuer, being a parent entity, is not obliged to provide interim separate financial statements, on condition that it includes in the interim consolidated financial statements consisting of balance sheet, profit and loss account, statement of changes in equity, cash flow statement and condensed supplementary notes, comprising of information and data significant for the assessment of the issuer's financial standing and its profit or loss, but not presented in the interim consolidated financial statement. In addition, it's required to prepare the interim condensed financial statements in accordance with accounting principles adopted in the preparation process of the annual financial statements taking into account the changes described in the interim condensed consolidated financial statement of the Group for the third quarter 2018.

Principles adopted in the preparation process of these interim condensed standalone financial statement are consistent with the principles, described in the annual standalone financial statements of the Bank for the financial year ended 31 December 2017 taking into account the changes described in the interim condensed consolidated financial statement of the Group for the third quarter 2018.

Other information and explanations concerning these interim condensed consolidated financial statements for the third quarter 2018 contain also all information and explanatory data essential for these interim condensed standalone financial statements.

The summary of Bank's financial results for the third quarter of 2018 is presented below.

Bank's financial results

For the third quarter of 2018 the Bank has generated profit before tax of PLN 205 million, in comparison to PLN 206 million in the corresponding period of 2017, that is -0.9% YoY.

Net profit accruals (for July-September, 2018 period) was PLN 158 million in comparison to PLN 162 million of net profit in the corresponding period of 2017.

The significant impact on the Bank's net profit in the third quarter 2018 had increase of interest result by PLN 7 million (or

2.7% YoY), decrease of fees and commission income by PLN 10 million (that is -6.9% YoY) and insignificant decrease of financial instruments result (trade financial instruments and revaluation, debt investment securities, equity investment instruments and other) by total of PLN 0.3 million (or 0.2%). Simultaneously Bank's activity costs and general and administrative expenses and depreciation decreased by total of PLN 3 million (or -1.1%), while net impairment due to financial assets and provisions value losses for granted financial and guarantees liabilities decreased by PLN 3 million (or 12.9% YoY).

The interim condensed consolidated financial statements for the third quarter of 2018 will be available on the website of Bank Handlowy w Warszawie S.A. at **www.citihandlowy.pl**

Signature of the Vice-Director of
Financial Reporting, Control and Tax Department

Date and signature

13.11.2018

Signature of the Vice-President of
Management Board

Date and signature

13.11.2018