

ANNUAL REPORT 2019

BANK HANDLOWY W WARSZAWIE S.A.



MARCH 2020

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2019	2018	2019	2018
Interest and similar income	1,405,609	1,303,310	326,752	292,616
Fee and commission income	620,027	603,439	144,133	141,423
Profit before tax	656,189	842,273	152,540	197,397
Net profit	478,802	653,119	111,304	153,066
Total comprehensive income	505,318	745,025	117,468	174,606
Increase/decrease of net cash	(3,678,013)	6,960,340	(855,002)	1,631,240
Total assets	51,897,712	49,242,024	12,186,853	11,451,633
Amounts due to banks	2,125,383	1,402,124	499,092	326,075
Amounts due to customers	39,849,772	38,395,885	9,357,702	8,929,276
Shareholders' equity	7,023,703	7,007,052	1,649,337	1,629,547
Share capital	522,638	522,638	122,728	121,544
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	53.76	53.63	12.50	12.47
Capital adequacy ratio (in %)	17.0	16.5	17.0	16.5
Earnings per share (PLN/EUR)	3.66	5.00	0.85	1.17
Diluted net earnings per share (PLN/EUR)	3.66	5.00	0.85	1.17
Declared or paid dividends per share (PLN/EUR)*	-	3.74	-	0.87

* The Management Board has not concluded its analysis to be able to provide a recommendation regarding dividend from the appropriation of the 2019 profit. The presented ratios for 2018 are related to the dividend paid in 2019 from the appropriation of the 2018 profit.

**The following foreign exchange rates were applied to convert PLN into EUR: for the statement of financial position - NBP mid exchange rate as at 31 December 2019 - PLN 4.2585 (as at 31 December 2018: PLN 4.3000); for the income statement, statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in 2019 – PLN 4.3018 in 2018: PLN 4.2669).



THE ANNUAL FINANCIAL STATEMENTS OF
BANK HANDLOWY W WARSZAWIE S.A.
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2019

MARCH 2020

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Income statement

	For the period	2019	2018
PLN'000	Note		
Interest income	4	1,299,276	1,248,565
Similar income	4	106,333	54,745
Interest expense and similar charges	4	(253,880)	(198,231)
Net interest income	4	1,151,729	1,105,079
Fee and commission income	5	620,027	603,439
Fee and commission expense	5	(75,980)	(76,148)
Net fee and commission income	5	544,047	527,291
Dividend income	6	10,949	23,778
Net income on trading financial instruments and revaluation	7	375,458	361,546
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	38	97,969	112,631
Net gain/(loss) on equity and other instruments measured at fair value through income statement		17,366	6,276
Net gain/(loss) on hedge accounting	8	(3,493)	3,682
Other operating income	9	24,600	37,990
Other operating expenses	9	(28,619)	(29,189)
Net other operating income	9	(4,019)	8,801
General administrative expenses	10	(1,104,050)	(1,084,387)
Depreciation expense	11	(85,793)	(70,678)
Profit/(loss) on sale of other assets		(354)	(834)
Provisions for expected credit losses on financial assets and provisions for off-balance sheet commitments	12	(245,898)	(63,562)
Tax on some financial institutions		(97,722)	(87,350)
Profit before tax		656,189	842,273
Income tax expense	13	(177,387)	(189,154)
Net profit		478,802	653,119
Weighted average number of ordinary shares (in pcs)	14	130,659,600	130 659 600
Net earnings per share (PLN)	14	3.66	5.00
Diluted net earnings per share (PLN)	14	3.66	5.00

Explanatory notes on pages 11-90 are an integral part of the annual financial statements.

Statement of comprehensive income

	For the period	2019	2018
<i>PLN'000</i>	Note		
Net profit		478,802	653,119
Other comprehensive income, that might be subsequently reclassified to profit or loss:			
Change in net value of financial assets measured at fair value through other comprehensive income	15	30,521	94,544
Other comprehensive income, that cannot be subsequently reclassified to profit or loss:			
Net actuarial profits (losses) on defined benefit program valuation	15	(4,005)	(2,638)
Other comprehensive income net of tax		26,516	91,906
Total comprehensive income for the period		505,318	745,025

Explanatory notes on pages 11-90 are an integral part of the annual financial statements.

Statement of financial position

	As at	31.12.2019	31.12.2018
<i>PLN'000</i>	<i>Note</i>		
ASSETS			
Cash and balances with the Central Bank	16	3,736,706	7,272,193
Amounts due from banks	17	1,165,625	1,333,816
Financial assets held-for-trading	18	5,406,595	2,213,849
Debt financial assets measured at fair value through other comprehensive income	19	15,484,578	14,241,363
Shares in subsidiaries	20	105,895	106,075
Equity and other instruments at fair value through the income statement	20	62,355	48,511
Amounts due from customers	21	23,608,775	21,853,349
Tangible fixed assets	22	498,799	363,002
Intangible assets	23	1,441,953	1,417,506
Deferred income tax asset	25	237,338	205,165
Other assets	26	149,093	187,195
Total assets		51,897,712	49,242,024
LIABILITIES			
Amounts due to banks	27	2,125,383	1,402,124
Financial liabilities held-for-trading	18	1,867,900	1,606,189
Hedging derivatives		19,226	-
Amounts due to customers	28	39,849,772	38,395,885
Provisions	29	65,199	29,984
Current income tax liabilities		41,725	66,297
Other liabilities	30	904,804	734,493
Total liabilities		44,874,009	42,234,972
EQUITY			
Share capital	32	522,638	522,638
Supplementary capital	32	2,944,585	2,944,585
Revaluation reserve	32	114,893	84,372
Other reserves	32	2,874,289	2,877,122
Retained earnings		567,298	578,335
Total equity		7,023,703	7,007,052
Total liabilities and equity		51,897,712	49,242,024

Explanatory notes on pages 11-90 are an integral part of the annual financial statements.

Statement of changes in equity

<i>PLN'000</i>	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
Restated balance as at 1 January 2019	522,638	2,944,585	84,372	2,877,122	578,335	7,007,052
Total comprehensive income, including:	-	-	30,521	(4,005)	478,802	505,318
net profit	-	-	-	-	478,802	478,802
net valuation of financial assets measured at fair value through other comprehensive income	-	-	30,521	-	-	30,521
net actuarial profits/(losses) on defined benefit program valuation	-	-	-	(4,005)	-	(4,005)
Dividends	-	-	-	-	(488,667)	(488,667)
Transfer to capital	-	-	-	1,172	(1,172)	-
As at 31 December 2019	522,638	2,944,585	114,893	2,874,289	567,298	7,023,703

<i>PLN'000</i>	Share capital	Supplementary capital	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:	-	-	94,544	(2,638)	653,119	745,025
net profit	-	-	-	-	653,119	653,119
net valuation of financial assets measured at fair value through other comprehensive income	-	-	94,544	-	-	94,544
net actuarial profits/(losses) on defined benefit program valuation	-	-	-	(2,638)	-	(2,638)
Dividends	-	-	-	-	(537,011)	(537,011)
Transfer to capital	-	-	-	91	(91)	-
As at 31 December 2018	522,638	2,944,585	84,372	2,877,122	578,335	7,007,052

Explanatory notes on pages 11-90 are an integral part of the annual financial statements.

Cash flow statement

	For the period	2019	2018
<i>PLN'000</i>			
A. Operating activities			
I. Net profit		478,802	653,119
II. Adjustments:		(4,598,060)	5,934,744
Current and deferred income tax recognized in income statement		177,387	189,154
Depreciation expense		85,793	70,678
Net impairment due to financial assets value loss		210,743	73,017
Net provisions (recoveries)		36,795	(10,475)
Net interest income		(1,151,729)	(1,105,079)
Dividend income		(10,949)	(23,778)
Profit/loss on sale of fixed assets		354	844
Net unrealized exchange differences		(600)	(8,964)
Equity and other investment measured at fair value though the income statement		(17,366)	(6,276)
Other adjustments		7,320	2,895
Change in amounts due from banks		25,399	(349,128)
Change in amounts due from customers		(1,934,029)	(2,265,272)
Change in debt securities measured at fair value through other comprehensive income		(1,338,302)	3,199,537
Change in financial assets held-for-trading		(3,186,333)	(52,669)
Change in other assets		38,116	(28,249)
Change in amounts due to banks		725,025	(130,856)
Change in amounts due to customers		1,448,257	6,220,405
Change in liabilities held-for-trading		261,711	255,158
Change in amounts due to hedging derivatives		19,226	(50,191)
Change in other liabilities		5,122	(46,007)
Interest received		1,500,435	1,438,607
Interest paid		(245,762)	(195,101)
Income tax paid		(240,352)	(206,443)
III. Net cash flows from operating activities		(3,104,937)	7,624,926
B. Investing activities			
Inflows			
Disposal of tangible fixed assets		627	16
Disposal of capital shares		20,640	-
Disposal of fixed assets held-for-sale		-	1,068
Dividends received		10,652	23,505
Outflows			
Purchase of tangible fixed assets		(31,026)	(17,323)
Purchase of intangible assets		(69,711)	(108,430)
Purchase of capital shares		(41)	-
Net cash flows from investing activities		(68,859)	(101,164)
C. Financing activities			
Inflows		-	-
Drawing of long-term loans from financial sector		-	-
Outflows			
Dividends paid		(488,667)	(537,011)
Repayment of long-term loans from financial sector		(1,673)	(35,936)
Outflows from lease payments		(13,930)	-
Net cash flows from financing activities		(504,270)	(572,947)
D. Exchange rates differences resulting from cash and cash equivalent calculation		53	9,525
E. Net increase/(decrease) in cash and cash equivalent		(3,678,013)	6,960,340
F. Cash and cash equivalent at the beginning of reporting period		7,474,817	514,477
G. Cash and cash equivalent at the end of reporting period (see note 42)		3,796,804	7,474,817

Explanatory notes on pages 11-90 are an integral part of the annual financial statements.

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

1. General information about the Bank

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

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

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

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

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

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

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

2. Significant accounting policies

Declaration of conformity

The annual unconsolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("IFRS EU") and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2019, item 391), respective operating regulations and regulations relating to issuers of securities admitted or sought to be admitted to trading on the official stock exchange quotation market.

The financial statements of the Bank were prepared on the assumption that the Bank will continue as a going concern for at least 12 months from balance sheet day. As at the date of signing this financial statements, the Management Board of the Bank does not state any facts or circumstances that would indicate a threat to the Bank's ability to continue as a going concern for at least 12 months from the balance sheet date as a result of an intentional or forced discontinuance or material limitation of the Bank's existing business.

The annual unconsolidated financial statements of the Bank have been approved by the Management Board of the Bank for publication on 25 March 2020. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

The annual consolidated financial statements were approved by the Management Board of the Bank for publication on 25 March 2020. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

Basis of preparation

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

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

The financial statements have been prepared on the fair-value-basis for financial assets and financial liabilities measured at fair value through profit and loss including derivatives and capital investments (minority shareholdings) and financial assets measured at fair value through other comprehensive income. Other financial assets are presented at cost decreased by depreciation/ amortization and expected credit losses. Other financial liabilities are presented at amortized cost.

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

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

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

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

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

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

Income statement	No of note with accounting policy description
Net interest income	4
Net fee and commission income	5
Dividend income	6
Net income on trading financial instruments and revaluation	2.1
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	2.1
Net gain/(loss) on equity and other instruments measured at fair value through income statement	2.1
Net gain/(loss) on hedge accounting	35
Provisions for expected credit losses on financial assets and provisions for off-balance sheet commitments	46
Statement of financial position	No of note with accounting policy description
Amounts due from banks	2.1
Financial assets held-for-trading	2.1
Debt financial assets measured at fair value through other comprehensive income	2.1
Shares in subsidiaries	20
Equity and other instruments at fair value through the income statement	2.1
Amounts due from customers	2.1
Tangible fixed assets	22
Intangible assets	23
Deferred income tax asset	25
Amounts due to banks	2.1
Financial liabilities held-for-trading	2.1
Hedging derivatives	35
Amounts due to customers	2.1
Provisions	29
Other liabilities	30

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

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

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

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

Other standard amendments awaiting endorsement by the European Union

Other standard amendments awaiting endorsement by the European Union:

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

will not impact the financial statement significantly.

Standards applicable from 1 January 2019

Standards applicable from 1 January 2019:

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

Foreign currency

The values reported in annual standalone financial statement are presented in PLN, which is functional currency and the currency of presentation of the Bank.

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

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

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

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

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

2.1 Financial assets and liabilities – classification and measurement

Classification

The Bank classifies financial instruments to the following categories:

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

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

The category comprises:

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

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

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

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

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

- a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Bank in accordance with Transition Resource Group for Impairment of Financial Instruments presented gross carrying amount of receivables in Stage 3 in the amount increased by accrued contract interest in the note 21 'Amounts due from customers'. The value of credit provisions is increased by the same amount.

Purchased or originated credit impaired assets (POCI)

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

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

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

- a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Bank classifies in this category selected debt instruments.

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

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

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

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

Recognition, derecognition and insignificant modifications

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

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

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

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

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

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

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

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

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

Valuation

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

After initial recognition, the Bank measures financial assets:

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

Financial liabilities:

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

Objective evidence of impairment of a financial asset or a group of assets includes information obtained by the Bank concerning events, which are provided in the later part of the note 46 'Risk management'.

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

Forbearance

Forborne exposures are exposures for which concessions were granted due to economic or legal reasons (for financial conditions), resulting from financial difficulties of an obligor, that the lender would not otherwise extend.

The client's restructuring and its exposure does not always imply a loss of value (e.g. in the case of obtaining appropriate compensations). Impaired exposures are restructured exposures with forced restructuring.

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

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

Impairment provisions for expected credit losses

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

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

Provisions for expected credit losses for individually significant assets

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

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

Impairment provisions for individually not significant assets

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

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

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

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

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

2.2 IFRS 16 Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank elected to apply the following practical expedients:

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

The Bank applies the exemption due to the short term of the contract in relation to contracts of indefinite duration, which have short notice periods, in relation to which no improvements were made in the rented fixed asset and which do not involve significant penalties for termination. Exemption due to low-preciousness is used, among others in relation to office equipment.

Initial application of IFRS 16

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

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

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

<i>in PLN thousand</i>	31 December 2018	IFRS 16 impact	1 January 2019
Tangible fixed assets	363,002	145,964	508,966
Total assets	363,002	145,964	508,966
Other liabilities	734,493	145,964	880,457
Total liabilities	734,493	145,964	880,457

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

Reconciliation of Lease Liabilities

<i>in PLN thousand</i>	Rights to perpetual usufruct	Real estate and other	Total
Weighted-average Incremental Borrowing Rate	4.3%	1.4%	3,8%
Total non-cancellable operating lease rentals disclosed as at 31 December 2018 in accordance with IAS 37	-	58,719	58,719

Inclusion of Rights to perpetual usufruct and lease term change options	268,695	9,116	277,811
Total Undiscounted Lease Liability	268,695	67,835	336,530
Imputed Interest	186,507	4,059	190,566
Total Discounted Lease Liability as at 1 January 2019	82,188	63,776	145,964

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

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

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

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

2.3 Accounting estimates and judgments

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

Fair value of derivatives

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

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

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

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

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

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

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

Provisions for expected credit losses

The Bank 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 Bank makes regular allowances for impairment of loan expected losses, whose level is regularly monitored.

At each balance sheet date, the Bank 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 Bank 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 Bank.

Impairment of goodwill

The Bank carries out obligatory annual impairment tests of goodwill in accordance with the model based on guidance from IAS 36. The basis of valuation of the recoverable amount of cash-generating units, to which the goodwill is assigned, is their value in use which is estimated by the Bank's management based on the financial plan reflecting the adopted assumptions on the future economic conditions and the expected Bank's 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 current value of future long-term liabilities of the Bank 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 Bank's employee, including staff turnover, risk of death and risk of total work incapacity.

3. Segment reporting

Information on segment reporting is presented in Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019, which have been approved by the Management Board of the Bank for publication on the same date as Annual Unconsolidated Financial Statements of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019.

4. Net interest income

Accounting policy:

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

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

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

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

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

Financial information:

PLN'000	2019	2018
Interest income from:	1,299,276	1,248,565
Financial assets measured at amortized cost	996,214	977,792
Balances with Central Bank	7,334	6,559

PLN'000	2019	2018
Amounts due from banks	17,831	22,940
Amounts from customers, including:	971,049	948,293
financial sector entities	54,541	54,450
non-financial sector entities, including:	916,508	893,843
credit card	281,531	286,435
Financial assets measured at fair value through comprehensive income	303,062	270,773
Debt investment financial assets measured at fair value through comprehensive income**	303,062	270,773
Similar income from:	106,333	54,745
Debt securities held-for-trading	77,607	44,802
Liabilities with negative interest rate	13,644	9,943
Derivatives in hedge accounting	15,082	-
	1,405,609	1,303,310
Interest expense and similar charges for		
Financial liabilities measured at amortized cost	(237,336)	(192,361)
Amounts due to banks	(64,131)	(43,021)
Amounts due to customers	(168,524)	(149,094)
Amounts due to financial sector entities	(50,801)	(60,928)
Amounts due to non-financial sector entities	(117,723)	(88,166)
Loans and advances acquired	(345)	(246)
Leasing liabilities	(4,336)	-
Assets with negative interest rate	(756)	(2,161)
Derivatives in hedge accounting	(15,788)	(3,709)
	(253,880)	(198,231)
Net interest income	1,151,729	1,105,079

5. Net fee and commission income

Accounting policy:

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

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

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

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

For other commissions Bank performs:

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

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

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

The Bank shall 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 Bank can specifically identify;
- b) the costs generate or enhance resources of the Bank that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- c) the Bank expects to recover the costs.

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

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

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

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

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

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

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

Financial information:

<i>PLN'000</i>	2019	2018
Fee and commission income:		
Insurance and investment products (agency)	70,264	89,219
Payment and credit cards	161,019	159,205
Payment services	111,213	106,995
Custody services	94,805	85,086
Cash management services on customers' accounts	27,078	25,610
Granted guarantee liabilities	18,895	19,194
Granted financial liabilities	7,866	7,933
Other, including:	128,887	110,197
installment products in credit card	28,740	27,483
	620,027	603,439
Fee and commission expense:		
Payment and credit cards	(32,896)	(36,685)
Fees paid to the National Depository for Securities (KDPW)	(20,820)	(18,928)
Brokers fees	(4,184)	(4,516)
Other	(18,080)	(16,019)
	(75,980)	(76,148)
Net fee and commission income	544,047	527,291

The net fee and commission income for 2019 comprises commission income (other than income covered by the calculation of the effective interest rate process) related to financial assets and liabilities not measured at fair value through profit or loss in the amount of PLN 202,964 thousand (for 2018: PLN 194,200 thousand) and commission expenses in the amount of PLN 37,331 thousand (for 2018: PLN 40,911 thousand).

The "other" item in the fee and commission income contains a value that is the result of transactions carried out in the first half of 2019. 100% shares in Bimmer Sp. z o.o. purchased on March 8, 2019 were sold to an external investor on May 30, 2019 for PLN 17.1 million. The subject of activity of Bimmer Sp. z o.o. is insurance brokerage, in particular providing

insurance products services separated from the Bank, which the Bank has historically excluded from its offer. The transaction resulted in an increase in commission income in 2019 by PLN 13.1 million, while the remaining part will be recognized in the income statement in future periods.

6. Dividend income

Accounting policy:

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

Financial information:

Dividend income amounted to PLN 10,949 thousand in 2019 (2018: PLN 23,778 thousand) include dividends received and due from the Bank's subsidiaries - PLN 1,142 thousand (in 2018: PLN 14,672 thousand). The remaining amount of dividends was received from entities with no controlling interest of the Bank, presented in the statement of financial position under 'Equity and other instruments at fair value through the income statement'.

7. Net income on trading financial instruments and revaluation

Accounting policy:

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

Financial information:

PLN'000	2019	2018
Net income on financial instruments measured at fair value through profit of loss from:		
Debt instruments	35,456	28,236
Derivative instruments, including:	(82,650)	(352)
Interest rate derivatives	(83,003)	(313)
Commodities	353	(39)
	(47,194)	27,884
Net profit on foreign exchange		
Net profit on foreign currency derivatives	470,297	498,691
Revaluation	(47,645)	(165,029)
	422,652	333,662
Net income on trading financial instruments and revaluation	375,458	361,546

The net income on trading financial instruments and revaluation for 2019 contains movement in (net) adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN 2,580 thousand (in 2018: minus PLN 11,051 thousand).

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

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

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

8. Net gain/(loss) on hedge accounting

Accounting policy:

Detailed information on hedge accounting applied by the Bank, including the accounting policy, are presented in the note 34.

Financial information:

PLN'000	2019	2018
Fair value hedge accounting		
Net gain on hedged transaction valuation	334	14,526
Net gain on hedging transaction valuation	(3,827)	(10,844)

Hedge accounting income	(3,493)	3,682
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9. Net other operating income

Financial information:

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

PLN'000	2019	2018
Other operating income		
Income from provision of services for related parties	8,806	9,277
Income from office rental	8,335	8,398
Other, including:	7,459	20,315
reimbursement of legal and enforcement costs	2,762	2,709
	24,600	37,990
Other operating expenses		
Amicable procedure and vindication expenses	(8,564)	(9,043)
Fixed assets held-for-sale maintenance cost	-	(87)
Net provision for litigation	(390)	(165)
Other, including:	(19,665)	(19,894)
donation	(3,856)	(4,075)
	(28,619)	(29,189)
Net other operating income	(4,019)	8,801

10. General administrative expenses

Accounting policy:

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

Financial information:

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

PLN'000	2019	2018
Staff expenses		
Remuneration costs, including:	(369,676)	(372,756)
Provisions for retirement allowances	(27,970)	(27,676)
Bonuses and rewards, including:	(71,322)	(79,767)
Payments related to own equity instruments	(4,041)	(8,818)
Rewards for long time employment	(30)	(38)
Social insurance costs	(63,230)	(61,699)
	(504,228)	(514,222)
Administrative expenses		
Telecommunication fees and hardware purchases	(190,164)	(182,095)
Costs of external services, including advisory, audit, consulting services	(49,479)	(54,592)
Building maintenance and rent costs	(53,198)	(64,043)
Advertising and marketing costs	(46,292)	(47,179)
Cash management service, KIR service and other transactional costs	(38,053)	(37,634)
Costs of external services related to the distribution of banking products	(44,779)	(40,402)
Postal services, office supplies and printmaking costs	(7,983)	(7,440)
Training and education costs	(1,414)	(1,355)
Banking and capital supervision costs	(5,765)	(3,987)
Bank Guarantee Funds costs	(102,292)	(61,720)
Other expenses	(60,403)	(69,718)

PLN'000	2019	2018
	(599,822)	(570,165)
General administrative expenses, total	(1,104,050)	(1,084,387)

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

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

11. Depreciation expense

Accounting policy:

Depreciation expenses is recognized on a straight-line basis according to depreciation rates described in the note 22 for tangible fixed assets and note 23 for intangible assets.

Financial information:

PLN'000	2019	2018
Depreciation of property and equipment	(41,151)	(28,479)
Amortization of intangible assets	(44,642)	(42,199)
Depreciation expense, total	(85,793)	(70,678)

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

Accounting policy:

Net expected credit loss and net provisions for contingent commitments are presented in this position. Impairment policy is described in details in note 46 in Credit risk part.

Financial information:

PLN '000	2019	2018
Provision for expected credit losses on equity investments		
Provision creation	(180)	(51)
Provision release	-	-
	(180)	(51)
Provision for expected credit losses on amounts due from banks		
Provision creation	(3,244)	(5,664)
Provision release	4,664	4,355
	1,420	(1,309)
Provision for expected credit losses on amounts due from customers		
Provision creation and reversals	(216,110)	(75,099)
Provision creation	(365,127)	(214,719)
Provision release	151,861	140,690
Other	(2,844)	(1,070)
Recoveries from debt sold (written-off)	4,293	2,373
	(211,817)	(72,726)
Provision for expected credit losses on debt investment financial assets measured at fair value through other comprehensive income		
Provision creation	(166)	-
Provision release	-	1,069
	(166)	1,069

PLN '000	2019	2018
Provision for expected credit losses on financial assets	(210,743)	(73,017)
Created provisions for granted financial and guarantee commitments	(68,808)	(33,810)
Release of provisions for granted financial and guarantee commitments	33,653	43,265
Provision for expected credit losses for granted off-balance sheet commitments	(35,155)	9,455
Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments	(245,898)	(63,562)

13. Income tax expense

Accounting policy:

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

Financial information:

Recognized in the income statement

PLN'000	2019	2018
Current tax		
Current year	(215,388)	(206,586)
Adjustments for prior years	(392)	(1,120)
	(215,780)	(207,706)
Deferred tax		
Origination and reversal of temporary differences	38,393	18,552
	38,393	18,552
Total income tax expense in income statement	(177,387)	(189,154)

Reconciliation of effective tax rate

PLN'000	2019	2018
Profit before tax	656,189	842,273
Income tax at the domestic corporate tax rate of 19%	(124,676)	(160,032)
Provisions for impairment losses not tax deductible	(12,101)	(2,322)
Deductible income not recognized in the income statement	(3,536)	(1,314)
Non-taxable income	2,019	4,469
Tax on some financial institutions	(18,567)	(16,597)
Bank Guarantee Fund	(19,436)	(11,727)
Other permanent differences, including other non-deductible expenses	(1,090)	(1,631)
Total tax expenses	(177,387)	(189,154)
Effective tax rate	27.03%	22.46%

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

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2019 is related to financial assets measured at fair value through other comprehensive income and valuation of defined benefit plan and amounted to PLN (24,224) thousand (31 December 2018: PLN (18 004) thousand).

14. Earnings per share

As at 31 December 2019, earnings per share amounted to PLN 3.66 (31 December 2018: PLN 5.00).

The calculation of earnings per share as at 31 December 2019 was based on profit attributable to shareholders of PLN 478,802 thousand (31 December 2018: PLN 653,119 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2019 of 130,659,600 (31 December 2018: 130,659,600).

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

15. Changes in other comprehensive income

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

<i>PLN'000</i>	Gross amount	Deferred income tax	Net amount
As at 1 January 2019	94,761	(18,004)	76,757
Change in valuation of financial assets measured at fair value through other comprehensive income	135,650	(25,773)	109,877
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(97,970)	18,614	(79,356)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	132,441	(25,163)	107,278
Net actuarial losses on defined benefit program valuation	(4,945)	940	(4,005)
As at 31 December 2019	127,496	(24,223)	103,273

<i>PLN'000</i>	Gross amount	Deferred income tax	Net amount
As at 1 January 2018	(17,720)	3,367	(14,353)
Impact of adopting IFRS 9	(1,086)	290	(796)
Balance as at 1 January 2018 including impact of adopting IFRS 9	(18,806)	3,657	(15,149)
Change in valuation of financial assets measured at fair value through other comprehensive income	229,455	(43,680)	185,775
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(112,631)	21,400	(91,231)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	98,018	(18,623)	79,395
Net actuarial losses on defined benefit program valuation	(3,257)	619	(2,638)
As at 31 December 2018	94,761	(18,004)	76,757

16. Cash and balances with the Central Bank

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

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

Declared balance of obligatory reserve amounted as at 31 December 2019 to PLN 1,422,651 thousand (31 December 2018: PLN 1,271,148 thousand).

17. Amounts due from banks

Accounting policy:

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

Financial information:

PLN'000	31.12.2019	31.12.2018
Current accounts	60,412	203,150
Deposits	379,786	386,058
Loans and advances	3,428	28
Liabilities due to purchased securities with a repurchase agreement	625,592	630,126
Deposits pledged as collateral of derivative instruments and stock market transactions	99,001	118,364
Total gross amount	1,168,219	1,337,726
Provision for expected credit losses	(2,594)	(3,910)
Total net amounts due from banks	1,165,625	1,333,816

The movement in loss allowance amounts due from banks is as follows:

PLN '000	Stage 1	Stage 2	Stage 3	Total
Loss allowance - amounts due from banks				
Loss allowance as at 1 January 2019	(3,910)	-	-	(3,910)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
(Creation) / Releases in the period though the income statement	1,420	-	-	1,420
Foreign exchange and other movements	(104)	-	-	(104)
Loss allowance as at 31 December 2019	(2,594)	-	-	(2,594)

PLN '000	Stage 1	Stage 2	Stage 3	Total
Loss allowance - amounts due from banks				
Loss allowance as at 1 January 2018	(2,223)	(124)	-	(2,347)
Transfer to Stage 1	(124)	124	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
(Creation)/Releases in the period though the income statement	(1,309)	-	-	(1,309)
Foreign exchange and other movements	(254)	-	-	(254)
Loss allowance as at 31 December 2018	(3,910)	-	-	(3,910)

Changes of gross amounts due from banks that contributed to movements in loss allowance amounts is as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2019	1,337,723	2	-	1,337,726
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Purchased/paid receivables	(228,952)	-	-	(228,952)
Other movements	59,446	-	-	59,446
Gross amounts due from banks as at 31 December 2019	1,168,217	3	-	1,168,219

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2018	831,568	5,709	-	837,277
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Purchased/paid receivables	485,635	(5,700)	-	479,935
Other movements	20,520	(6)	-	20,514
Gross amounts due from banks as at 31 December 2018	1,337,723	3	-	1,337,726

18. Financial assets and liabilities held-for-trading

Accounting policy:

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

Financial information:

Financial assets held-for-trading

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

PLN'000	31.12.2019	31.12.2018
Debt securities held-for-trading		
Bonds and notes issued by:		
Central Banks and other	999,917	-
Other financial entities	7,125	12,944
Central governments	2,874,773	918,228
	3,881,815	931,172
Including:	-	-
Listed on active market	2,881,897	931,172
Derivative financial instruments	1,524,780	1,282,677
Financial assets held-for-trading, total	5,406,595	2,213,849

Financial liabilities held-for-trading

PLN'000	31.12.2019	31.12.2018
Short positions in financial assets	238,408	348,130
Derivative financial instruments	1,629,492	1,258,059
Financial liabilities held-for-trading, total	1,867,900	1,606,189

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

Derivative financial instruments as at 31 December 2019

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	43 827 433	37 840 304	127 617 389	27 456 990	236 742 116	872 786	1 112 966
FRA	34 030 000	15 240 000	14 753 000		64 023 000	2 558	3 815
Interest rate swaps (IRS)	9 797 433	22 600 304	110 965 539	27 415 264	170 778 540	870 228	1 109 106
Interest rate options	-	-	1 898 850	41 726	1 940 576	-	45

Currency instruments	30 557 396	15 455 840	24 432 442	8 175 751	78 621 429	614 831	478 994
FX forward	3 428 837	2 745 957	1 889 596	-	8 064 390	97 075	37 062
FX swap	20 442 422	5 466 035	3 838 179	-	29 746 636	242 510	306 517
Currency-interest rate swaps (CIRS)**	5 202 463	6 606 291	14 562 621	8 175 751	34 547 126	239 109	99 138
Foreign exchange options	1 483 674	637 557	4 142 046	-	6 263 277	36 137	36 277
Securities transactions	126 143	-	-	-	126 143	293	618
Securities purchased / sold pending delivery	126 143	-	-	-	126 143	293	618
Commodity transactions	55 783	237 429	141 962	-	435 174	36 870	36 914
Swaps	55 783	237 429	141 962	-	435 174	36 870	36 914
Total derivative instruments	74 566 755	53 533 573	152 191 793	35 632 741	315 924 862	1 524 780	1 629 492

*Exchange-traded products

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

Derivative financial instruments as at 31 December 2018

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	44,393,395	46,972,777	93,481,018	19,114,163	203,961,353	708,657	824,146
FRA	35,100,000	25,500,000	250,000	-	60,850,000	6,357	1,592
Interest rate swaps (IRS)	9,265,197	21,472,777	91,351,168	19,067,799	141,156,941	695,772	816,827
Interest rate options	-	-	1,879,850	46,364	1,926,214	5,806	5,727
Futures*	28,198	-	-	-	28,198	722	-
Currency instruments	33,054,901	11,219,240	15,623,991	8,759,041	68,657,173	566,951	426,387
FX forward	2,457,934	1,492,583	500,882	96,238	4,547,637	31,399	17,818
FX swap	28,261,956	3,934,789	2,885,819	-	35,082,564	210,549	107,304
Currency-interest rate swaps (CIRS)**	842,568	4,886,479	12,135,010	8,662,803	26,526,860	315,904	292,151
Foreign exchange options	1,492,443	905,389	102,280	-	2,500,112	9,099	9,114
Securities transactions	310,752	-	-	-	310,752	1,101	1,475
Securities purchased / sold pending delivery	310,752	-	-	-	310,752	1,101	1,475
Commodity transactions	29,173	107,533	72,095	-	208,801	5,968	6,051
Swaps	29,173	107,533	72,095	-	208,801	5,968	6,051
Total derivative instruments	77,788,221	58,299,550	109,177,104	27,873,204	273,138,079	1,282,677	1,258,059

*Exchange-traded products

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

Accounting policy:

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

Financial information:

PLN'000	31.12.2019	31.12.2018
Bonds and notes issued by:		
Central bank	-	-
Other banks, including:	-	-
bonds subject to fair value hedge accounting	-	-
Other financial sector entities	697,117	224,074
Central governments, including:	14,787,461	14,017,289
Covered bonds in fair value hedge accounting	1,833,308	-

Debt securities measured at fair value through other comprehensive income, total	15,484,578	14,241,363
Including:		
Listed on active market instruments	15,484,578	14,241,363
Unlisted on active market instruments	-	-

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

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

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

20. Shares in subsidiaries and Equity and other instruments at fair value through the income statement

Accounting policy:

Subsidiaries are all entities controlled by the Bank. The Bank controls an entity when the Bank 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.

Investments in subsidiaries in the Bank's separate financial statements are recognized using the cost method in accordance with IAS 27.

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

Financial information:

<i>PLN'000</i>	31.12.2019	31.12.2018
Shares in subsidiaries	115,812	115,812
Impairment	(9,917)	(9,737)
Equity and other instruments measured at fair value through income statement	62,355	48,511
Equity investments, total	168,250	154,586
Including:		
Listed on active market instruments	825	770
Unlisted on active market instruments	167,425	153,816

The movement in shares in subsidiaries, equity and other investments is as follows:

<i>PLN'000</i>	Subsidiaries	Other entities	Total
As at 1 January 2019	106,075	48,511	154,586
Increases (due to):	-	14,444	14,444
Revaluation	-	14,444	14,444
Decreases (due to):	(180)	(600)	(780)
Revaluation	-	(600)	(600)

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Settlement due to payments	(180)	-	(180)
As at 31 December 2019	105,895	62,355	168,250
<i>PLN'000</i>	Subsidiaries	Other entities	Total
As at 31 December 2019	106 368	26 171	132 539
IFRS 9 impact	-	16 064	16 064
As at 1 January 2018	106,368	42,235	148,603
Increases (due to):	-	6,276	6,276
Revaluation	-	6,276	6,276
Decreases (due to):	(293)	-	(293)
Revaluation	(51)	-	(51)
Settlement due to payments	(242)	-	(242)
As at 31 December 2018	106,075	48,511	154,586

Financial information on subsidiaries, 31.12.2019

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	97.47	15,720	21,929	525	21,404	266	(502)
DOM MAKLEPSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100	70,950	421,716	322,910	98,805	44,659	1,256
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100	13,502	Entity in liquidation				
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100	5,052	4,903	54	4,824	376	(212)
HANDLOWY – INWESTYCJE Sp. z o.o. ^{1/}	Warsaw	Investment activity	Subsidiary	100	672	10,820	40	10,780	117	(33)
						100,844				

*direct share

The explanation of indirect relationships:

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

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	414	21,929	525	21,404	266	(502)

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 29 February 2020, which is the entity's balance sheet date.

Financial information on subsidiaries, 31.12.2018

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	97.47	15,720	22,154	248	21,906	294	(524)
DOM MAKLEPSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100	70,950	364,086	265,309	98,777	49,021	1,250
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100	13,502	Entity under liquidation				
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100	5,223	5,178	52	5,100	258	(12,517)
HANDLOWY – INWESTYCJE Sp. z o.o. ^{1/}	Warsaw	Investment activity	Subsidiary	100	672	10,856	43	10,813	129	(22)
						106,075				

*direct share

The explanation of indirect relationships:

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

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	414	22,154	248	21,906	294	(524)

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

21. Amounts due from customers*Accounting policy:*

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

Financial information:

PLN'000	31.12.2019	31.12.2018
Amounts due from financial sector entities		
Loans and advances	641,317	401,223
Debt financial assets unlisted	1,765,711	1,156,233
Receivables due to purchased securities with a repurchase agreement	30,217	182,613
Guarantee funds and deposits pledged as collateral	592,891	312,695
Total gross amount	3,030,136	2,052,764
Provision for expected credit losses	(2,216)	(1,391)
Total net amount	3,027,920	2,051,373
Amounts due from non-financial sector entities		
Loans and advances	19,176,989	18,047,445
Unlisted debt financial assets	305,928	568,024
Purchased receivables	1,751,320	1,830,937
Realized guarantees	24,941	481
Other receivables	7,835	18,084
Total gross amount	21,267,013	20,464,971
Provision for expected credit losses	(686,158)	(662,995)
Total net amount	20,580,855	19,801,976
Total net amounts due from customers	23,608,775	21,853,349

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

The impact of including such interest on the gross carrying amount is presented below as well as in note 'Risk Management'.

PLN '000	31.12.2019	31.12.2018
Gross total value including contract interest in Stage 3	24,608,500	22,929,264
Impairment provision including contract interest in Stage 3	(999,725)	(1,075,915)
Net total value	23,608,775	21,853,349

In amounts due from customers presented on the line Unlisted debt financial assets are securities assets covered by the Bank. Until now the Bank acted as investor and acquired the senior tranches in three transactions. Securities purchased by the Bank are not traded on the market. The Bank intends to maintain investments until the maturity date. The main risk of securitisation transactions is credit risk. Bank's maximum exposure to loss from involvement in these entities is equal

to their carrying gross value, as at 31 December 2019 in the of amount PLN 1,765,711 thousand (31 December 2018: PLN 1,156,233 thousand). The carrying value of assets relating in Bank participation in unconsolidated structured entities as at 31 December 2018 in the amount of PLN 1,765,016 thousand (31 December 2018: PLN 1,155,554 thousand).

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

PLN '000	Stage 1	Stage 2	Stage 3	Total
Loss allowance - amounts due from customers				
Provision for expected credit losses as at 1 January 2019	(56,110)	(74,776)	(533,500)	(664,386)
Transfer to Stage 1	(14,461)	14,050	411	-
Transfer to Stage 2	7,241	(7,991)	750	-
Transfer to Stage 3	1,735	26,164	(27,899)	-
(Creation)/Releases in the period though the income statement	10,209	(37,459)	(186,780)	(214,030)
Net changes due to modification derecognition	-	-	(2,080)	(2,080)
Decrease in provision due to provision	-	-	66,901	66,901
Decrease in provision in connection with the sale of receivables	-	-	124,839	124,839
Foreign exchange and other movements	(2)	60	324	382
Provision for expected credit losses as at 31 December 2019	(51,388)	(79,952)	(557,034)	(688,374)

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

PLN '000	Stage 1	Stage 2	Stage 3	Total
Loss allowance - amounts due from customers				
Loss allowance as at 31 December 2017	-	-	-	(585,609)
Impact of adopting IFRS 9	-	-	-	(86,124)
Reclassification	-	-	-	5,178
Provision for expected credit losses as at 1 January 2018	(54,767)	(76,847)	(534,941)	(666,555)
Transfer to Stage 1	(1,460)	1,460	-	-
Transfer to Stage 2	1,040	(1,040)	-	-
Transfer to Stage 3	-	270	(270)	-
(Creation) / Releases in the period though the income statement	(697)	1,569	(75,971)	(75,099)
Decrease in provision due to provision	-	-	57,158	57,158
Decrease in provision in connection with the sale of receivables	-	-	21,292	21,292
Foreign exchange and other movements	(226)	(188)	(768)	(1,182)
Provision for expected credit losses as at 31 December 2018	(56,110)	(74,776)	(533,500)	(664,386)

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

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

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from customers measured at amortized cost				
Gross amounts due from customers as at 1 January 2019	20,151,320	1,642,101	724,315	22,517,735
Transfer to Stage 1	391,316	(390,363)	(953)	-
Transfer to Stage 2	(1,370,217)	1,371,454	(1,237)	-
Transfer to Stage 3	(124,927)	(251,136)	376,063	-
Purchased/paid receivables	2,313,545	(60,918)	(45,606)	2,207,021
Recognized receivables	-	-	(66,813)	(66,813)
Disposed receivables	-	-	(153,886)	(153,886)
Other movements	(259,015)	44,405	7,703	(206,907)
Gross amounts due from customers as at 31 December 2019	21,102,020	2,355,543	839,586	24,297,150

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from customers measured at amortized cost				

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from customers as at 1 January 2018	17,896,120	1,715,751	740,541	20,352,412
Transfer to Stage 1	361,300	(358,736)	(2,564)	-
Transfer to Stage 2	(495,485)	497,527	(2,042)	-
Transfer to Stage 3	(76,263)	(69,223)	145,486	-
Purchased/paid receivables	2,365,053	(149,595)	(51,815)	2,163,643
Recognized receivables	-	-	(57,158)	(57,158)
Disposed receivables	-	-	(42,375)	(42,375)
Other movements	100,585	6,386	(5,758)	101,213
Gross amounts due from customers as at 31 December 2018	20,151,310	1,642,110	724,315	22,517,735

The gross value of amounts due from customers does not include contractual interest accrued from the moment the exposure is classified in Stage 3.

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

22. Tangible fixed assets

Accounting policy:

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

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

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2019.

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

Buildings and structures	1.5%-4.5%
Motor vehicles	14.0%-34.0%
Computers	25.0%
Office equipment	20.0%
Other tangible fixed assets	7.0%-34.0%
Leasehold improvements - compliant with lease agreement period	

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

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

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

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

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

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

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

The recoverable amount in the case of assets other than financial assets is higher fair value less selling costs and value in use. For value in use calculation, the estimation of future cash flows is discounted to their present value using the

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

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

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

Tangible fixed assets since the day of initial application of IFRS 16 include right of use assets. Details are presented in note 41.

Financial information:

Movements of tangible fixed assets in 2019

PLN'000	Land and buildings	Vehicles	Other	Under construction	Total
Gross amount	586,684	23,979	234,794	50,327	895,784
As at 31 December 2018	93,380	-	-	-	93,380
Impact of adopting IFRS 16	680,064	23,979	234,794	50,327	989,164
As at 1 January 2019	-	-	-	-	-
Increases:	(4)	3,162	6,434	21,434	31,026
Purchases	9,198	-	79	-	9,277
Other increases	-	-	-	-	-
Decreases:	-	(1,295)	-	-	(1,295)
Disposals	(6,911)	-	(36,185)	-	(43,096)
Liquidation	-	(46)	(70)	(7,658)	(7,774)
Other decreases	32,723	-	15,745	(48,471)	(3)
Transfers	715,070	25,800	220,797	15,632	977,299
As at 31 December 2019					
Depreciation					
As at 31 December 2018	311,996	2,615	218,171	-	532,782
Impact of adopting IFRS 16	(52,584)	-	-	-	(52,584)
As at 1 January 2019	259,412	2,615	218,171	-	480,198
Increases:	-	-	-	-	-
Amortization change for the period	28,323	3,107	9,721	-	41,151
Other increases	-	-	72	-	72
Decreases:	-	-	-	-	-
Disposals	-	(314)	-	-	(314)
Liquidation	(6,430)	-	(36,107)	-	(42,537)
Other decreases	-	(2)	(68)	-	(70)
As at 31 December 2019	281,305	5,406	191,789	-	478,500
Carrying amount					
As at 31 December 2018	274,688	21,364	16,623	50,327	363,002
Impact of adopting IFRS 16	145,964	-	-	-	145,964
As at 1 January 2019	420,652	21,364	16,623	50,327	508,966
As at 31 December 2019	433,765	20,394	29,008	15,632	498,799

Movements of tangible fixed assets in 2018

PLN'000	Land and buildings	Vehicles	Other	Under construction	Total
Gross amount					
As at 1 January 2018	572,135	10,645	255,950	70,640	909,370
Increases:					
Purchases	-	13,334	877	3,112	17,323
Other increases	-	-	254	-	254
Decreases:					

PLN'000	Land and buildings	Vehicles	Other	Under construction	Total
Disposals	-	-	(1,805)	-	(1,805)
Liquidation	(7,037)	-	(21,572)	-	(28,609)
Other decreases	(3)	-	(50)	(696)	(749)
Transfers	21,589	-	1,140	(22,729)	-
As at 31 December 2018	586,684	23,979	234,794	50,327	895,784
Depreciation					
As at 1 January 2018	302,132	634	230,931	-	533,697
Increases:					
Amortization change for the period	16,207	1,981	10,291	-	28,479
Other increases	-	-	253	-	253
Decreases:					
Disposals	-	-	(1,805)	-	(1,805)
Liquidation	(6,343)	-	(21,445)	-	(27,788)
Other decreases	-	-	(54)	-	(54)
As at 31 December 2018	311,996	2,615	218,171	-	532,782
Carrying amount					
As at 1 January 2018	270,003	10,011	25,019	70,640	375,673
As at 31 December 2018	274,688	21,364	16,623	50,327	363,002

23. Intangible assets

Accounting policy:

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

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

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2019.

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

Computer software and licenses (except the main operating systems, which are depreciated at the rate of 10% and 20%)	34.0%
Other intangible fixed assets	20.0%

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

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

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

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

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

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

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

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

Financial information:

Movements of intangible assets in 2019

<i>PLN'000</i>	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2019	1,245,976	-	467,836	-	64,363	1,778,175
Increases:						
Purchases	-	-	551	-	69,160	69,711
Decreases:						
Liquidation	-	-	-	-	-	-
Other decreases	-	-	-	-	(622)	(622)
Provision	-	-	-	-	-	-
Transfers	-	-	68,569	-	(68,569)	-
As at 31 December 2019	1,245,976	-	536,956	-	64,332	1,847,264
Depreciation						
As at 1 January 2019	-	-	360,669	-	-	360,669
Increases:						
Amortization charge for the period	-	-	44,642	-	-	44,642
Decreases:						
Liquidation	-	-	-	-	-	-
As at 31 December 2019	-	-	405,311	-	-	405,311
Carrying amount						
As at 1 January 2019	1,245,976	-	107,167	-	64,363	1,417,506
As at 31 December 2019	1,245,976	-	131,645	-	64,332	1,441,953

Movements of intangible assets in 2018

<i>PLN'000</i>	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2018	1,245,976	735	440,055	18,242	19,826	1,724,834
Increases:						
Purchases	-	-	1,175	-	107,256	108,431
Decreases:						
Liquidation	-	-	(35,804)	-	-	(35,804)
Other decreases	-	-	-	-	(309)	(309)
Provision	-	(735)	-	(18,242)	-	(18,977)
Transfers	-	-	62,410	-	(62,410)	-
As at 31 December 2018	1,245,976	-	467,836	-	64,363	1,778,175
Depreciation						
As at 1 January 2018	-	735	354,274	18,242	-	373,251
Increases:						
Amortization charge for the period	-	-	42,199	-	-	42,199
Decreases:						
Liquidation	-	-	(35,804)	-	-	(35,804)
Provision	-	(735)	-	(18,242)	-	(18,977)
As at 31 December 2018	-	-	360,669	-	-	360,669

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Carrying amount						
As at 1 January 2018	1,245,976	-	85,781	-	19,826	1,351,583
As at 31 December 2018	1,245,976	-	107,167	-	64,363	1,417,506

In 2018 Bank analysed intangible assets in respect of their utilization and as a result Bank no longer expects inflow of economic benefits from patents, licenses and other intangible assets, so they were written down.

As at 31 December 2019, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise of ABN AMRO Bank (Poland) S.A. as at 1 March 2005.

24. Impairment test for goodwill

In the financial statements of the Bank, goodwill represents the difference between the cost of the acquisition and the fair value of the Bank's interest in identifiable assets, liabilities and contingent liabilities acquired at the business combination date. Goodwill is included in intangible assets. Goodwill is stated at cost minus any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment objective evidence of impairment. Impairment for goodwill cannot be reversed.

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

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

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

Book value of goodwill allocated to unit

PLN'000	31.12.2019	31.12.2018
Institutional Bank	851,206	851,206
Consumer Bank	394,770	394,770
	1,245,976	1,245,976

The basis of valuation of the recoverable amount for a unit is the value in use, assessed on the basis financial plan. The plan is based on rational assumptions about future facts that reflect management assessment of future economic conditions and expected results of the Bank. The plan is periodically updated and approved by the Bank's Supervisory Board. The board accepted a 3 year time period for the process of financial planning.

The discount rate is assessed on the basis of the capital assets pricing model (CAPM) using a beta coefficient for the banking sector, a risk premium and Treasury bond yield curves. In 2019, the discount rate amounted to 8.80% (8.80% at the end of 2018).

Extrapolation of cash flows, which exceed the period covered by the financial plan, has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2019.

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

25. Deferred income tax asset

Accounting policy:

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

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

Financial information:

<i>PLN'000</i>	31.12.2019	31.12.2018
Deferred income tax asset	709,350	545,021
Deferred income tax liability	472,012	339,856
Deferred income tax net asset	237,338	205,165

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

Deferred income tax asset is attributable to the following:

<i>PLN'000</i>	31.12.2019	31.12.2018
Interest accrued and other expense	7,648	10,244
Revaluation impairment provision	80,537	81,383
Unrealized premium from securities	94,818	81,285
Negative valuation of derivative financial instruments	407,346	285,916
Negative valuation of securities held-for-trading	3,753	280
Income collected in advance	31,617	30,700
Valuation of shares	-	-
Commissions	3,092	5,877
Debt and equity securities measured at fair value through other comprehensive income	-	-
Staff expenses and other cost due to pay	46,335	45,325
Leasing MSSF16	29,736	-
Other	4,468	4,011
Deferred income tax asset	709,350	545,021

Deferred income tax liability is attributable to the following:

<i>PLN'000</i>	31.12.2019	31.12.2018
Interest accrued (income)	52,990	40,001
Positive valuation of derivative financial instruments	329,533	246,146
Unrealized securities discount	1,052	2,312
Income to receive	4,882	2,748
Positive valuation of securities held-for-trading	180	722
Debt and equity securities measured at fair value through other comprehensive income	26,112	26,417
Investment relief	9,517	10,453
Valuation of shares	7,941	4,735
Lease IFRS16	29,481	-
Other	10,324	6,322
Deferred income tax liability	472,012	339,856
Net asset for deferred income tax	237,338	205,165

Movement in temporary differences during the year 2019

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

<i>PLN'000</i>	As at 1 January 2019	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2019
Interest accrued and other expense	10,244	(2,595)	-	7,649
Revaluation impairment provision	81,383	(845)	-	80,538
Unrealized premium from securities	81,285	13,533	-	94,818
Negative valuation of derivative financial instruments	285,916	121,429	-	407,345
Negative valuation of securities held-for-trading	280	3,472	-	3,752
Income collected in advance	30,700	917	-	31,617

<i>PLN'000</i>	As at 1 January 2019	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2019
Valuation of shares	-	-	-	-
Commissions	5,877	(2,785)	-	3,092
Debt and equity securities available-for-sale	-	-	-	-
Staff expenses and other costs due to pay	45,325	1,010	-	46,335
Lease IFRS16	-	29,736	-	29,736
Other	4,011	457	-	4,468
	545,021	164,329	-	709,350

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

<i>PLN'000</i>	As at 1 January 2019	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2019
Interest accrued (income)	40,001	12,989	-	52,990
Positive valuation of derivative financial instruments	246,146	83,387	-	329,533
Unrealized securities discount	2,312	(1,260)	-	1,052
Income to receive	2,748	2,134	-	4,882
Positive valuation of securities held-for-trading	722	(542)	-	180
Debt and equity securities available-for-sale	26,417	(5,585)	5,280	26,112
Investment relief	10,453	(936)	-	9,517
Valuation of shares	4,735	3,206	-	7,941
Lease IFRS16	-	29,481	-	29,481
Other	6,322	3,062	940	10,324
	339,856	125,936	6,220	472,012
Change in net assets for deferred income tax	205,165	38,393	(6,220)	237,338

Movement in temporary differences during the year 2018

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

<i>PLN'000</i>	As at 31 December 2017	Impact of adopting IFRS 9	As at 1 January 2018	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2018
Interest accrued and other expense	9,483	-	9,483	761	-	10,244
Revaluation impairment provision	48,321	33,037	81,358	25	-	81,383
Unrealized premium from securities	58,436	-	58,436	22,849	-	81,285
Negative valuation of derivative financial instruments	164,972	-	164,972	120,944	-	285,916
Negative valuation of securities held-for-trading	688	-	688	(408)	-	280
Income collected in advance	29,480	-	29,480	1,220	-	30,700
Valuation of shares	779	(3,052)	(2,273)	(2,462)	-	(4,735)
Commissions	6,137	-	6,137	(260)	-	5,877
Debt and equity securities available-for-sale	2,199	-	2,199	859	(3,985)	(927)
Staff expenses and other costs due to pay	45,136	-	45,136	(430)	619	45,325
Other	4,677	-	4,677	(666)	-	4,011
	370,308	29,985	400,293	142,432	(3,366)	539,359

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

<i>PLN'000</i>	As at 31 December 2017	Impact of adopting IFRS 9	As at 1 January 2018	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2018
Interest accrued (income)	37,733	(1,310)	36,423	3,578	-	40,001
Positive valuation of derivative financial instruments	115,419	-	115,419	130,727	-	246,146
Unrealized securities discount	7,097	-	7,097	(4,785)	-	2,312
Income to receive	3,243	-	3,243	(495)	-	2,748

PLN'000	As at 31 December 2017	Impact of adopting IFRS 9	As at 1 January 2018	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2018
Positive valuation of securities held-for-trading	568	-	568	154	-	722
Debt and equity securities available-for-sale	10,833	-	10,833	(3,348)	18,005	25,490
Investment relief	11,401	-	11,401	(948)	-	10,453
Other	7,035	-	7,035	(1,003)	290	6,322
	193,329	(1,310)	192,019	123,880	18,295	334,194
Change in net assets for deferred income tax	176,979	31,295	208,274	18,552	(21,661)	205,165

26. Other assets

PLN'000	31.12.2019	31.12.2018
Interbank settlements	2,997	2,981
Settlements related to securities trade	55	-
Income to receive	55,837	53,284
Staff loans out of the Social Fund	16,275	17,350
Sundry debtors	68,205	106,026
Prepayments	5,724	7,554
Other assets, total	149,093	187,195
Including financial assets*	87,532	126,357

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

27. Amounts due to banks

Accounting policy:

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

Financial information:

PLN'000	31.12.2019	31.12.2018
Current accounts	1,457,230	912,992
Term deposits	156,316	162,631
Loans and advances received	-	1,326
Liabilities due to sold securities under repurchase agreements	214,135	115,208
Other liabilities, including:	297,702	209,967
margin deposits	297,669	208,901
Amounts due to banks, total	2,125,383	1,402,124

Movements in loans received:

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

28. Amounts due to customers

Accounting policy:

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

classification and measurement'.

Financial information:

<i>PLN'000</i>	31.12.2019	31.12.2018
Deposits from financial sector entities		
Current accounts	906,605	768,907
Term deposits	3,857,791	6,444,881
	4,764,396	7,213,788
Deposits from non-financial sector entities		
Current accounts, including:	27,550,738	24,858,172
institutional customers	13,964,554	11,913,676
individual customers	10,197,405	9,267,737
public sector units	3,388,779	3,676,759
Term deposits, including:	7,266,327	6,087,028
institutional customers	4,076,392	3,498,273
individual customers	3,123,282	2,519,049
public sector units	66,653	69,706
	34,817,065	30,945,200
Total deposits	39,581,461	38,158,988
Other liabilities		
Other liabilities, including:	268,311	236,897
liabilities due to deposits	159,986	121,416
margin deposits	43,929	66,583
Total other liabilities	268,311	236,897
Total amounts due to customers	39,849,772	38,395,885

29. Provisions

Accounting policy:

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

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

Financial information:

<i>PLN'000</i>	31.12.2019	31.12.2018
Litigation	3,214	3,221
Granted financial and guarantee commitments	61,703	26,481
Restructuring of the branch network	282	282
Provisions, total	65,199	29,984

The movement in provisions is as follows:

<i>PLN'000</i>	2019	2018
As at 1 January	29,984	17,871
Provisions for:		
Litigation	3,221	3,154

PLN'000	2019	2018
Granted financial and guarantee commitments	26,481	12,789
Workforce restructuring	-	-
Restructuring of the branches network	282	1,928
Impact of adopting IFRS 9	-	22,886
Granted financial and guarantee commitments	-	22,886
Increases:		
Charges to provisions in the period:	72,373	34,169
Litigation	2,314	359
Granted financial and guarantee commitments	68,808	33,810
Workforce restructuring	1,251	-
Other, including	67	261
Granted financial and guarantee commitments	67	261
Decreases:		
Release of provisions in the period:	(35,577)	(44,644)
litigation	(1,924)	(194)
granted financial and guarantee commitments	(33,653)	(43,265)
restructuring of the branch network	-	(1,185)
Provisions used in the period, including:	(1,648)	(559)
litigation	(397)	(98)
workforce restructuring	(1,251)	-
restructuring of the branch network	-	(461)
Other, including		
litigation	-	-
As at 31 December	65,199	29,984
Including		
litigation	3,214	3,221
granted financial and guarantee commitments	61,703	26,481
restructuring of the branch network	282	282

* Additional information concerning provisions for granted financial and guarantee commitments are presented in note 39.

30. Other liabilities

Accounting policy:

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

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

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

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

Lease liabilities are measured in accordance with note 2.2.

Provisions due to employee benefits, including provision for retirement payments being defined benefit plan, are described in note 44.

Financial information:

PLN'000	31.12.2019	31.12.2018
Staff benefits	34,452	35,459
Interbank settlements	189,986	120,783

PLN'000	31.12.2019	31.12.2018
Inter-system settlements	914	1,197
Settlements related to securities trade	20	284
Liabilities due to leasing assets	143,270	-
Sundry creditors	224,923	295,373
Accruals, including:	269,070	237,597
Provision for employee payments	82,971	81,284
Provision for employee retirement	65,442	55,849
IT services and bank operations support	55,784	36,145
Consultancy services and business support	7,359	5,774
Other	57,514	58,545
Deferred income	20,156	19,561
Settlements with Tax Office and National Insurance (ZUS)	22,013	24,239
Other liabilities, total	904,804	734,493
Including financial liabilities*	862,635	690,693

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

31. Financial assets and liabilities by contractual maturity

As at 31 December 2019

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	17	1,168,219	756,204	278	176,459	235,278	-
Financial assets held-for-trading							
Debt securities held-for-trading	18	3,881,815	1,000,136	-	91,534	2,623,958	166,187
Financial assets measured at fair value through other comprehensive income		-	-	-	-	-	-
Debt financial assets measured at fair value through other comprehensive income	19	15,484,578	-	-	1,289,153	11,422,752	2,772,673
Amounts due from customers (gross)		-	-	-	-	-	-
Amounts due from financial sector entities	21	3,030,136	866,157	-	18,979	2,145,000	-
Amounts due from non-financial sector entities	21	21,267,013	7,341,903	1,314,465	2,564,481	8,123,589	1,922,575
Amounts due to banks	27	2,125,383	2,108,383	2,000	15,000	-	-
Amounts due to customers		-	-	-	-	-	-
Amounts due to financial sector entities	28	4,805,492	4,803,506	310	1,676	-	-
Amounts due to non-financial sector entities	28	35,044,280	32,487,397	1,233,492	1,289,776	33,615	-

As at 31 December 2018

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	17	1,337,726	812,485	-	296,245	228,996	-
Financial assets held-for-trading							
Debt securities held-for-trading	18	931,172	32,546	-	17,948	648,758	231,920
Financial assets measured at fair value through other comprehensive income		-	-	-	-	-	-
Debt financial assets measured at fair value through other comprehensive income	19	14,241,363	121,044	-	-	11,499,980	2,620,339
Amounts due from customers (gross)		-	-	-	-	-	-
Amounts due from financial sector entities	21	2,052,764	498,115	-	1,454,649	100,000	-
Amounts due from non-financial sector entities	21	20,464,971	7,702,096	1,492,378	2,510,333	6,886,074	1,874,090
Amounts due to banks	27	1,402,124	1,384,456	2,668	15,000	-	-
Amounts due to customers		-	-	-	-	-	-
Amounts due to financial sector entities	28	7,277,289	7,274,771	446	2,072	-	-
Amounts due to non-financial sector entities	28	31,118,596	29,587,137	1,075,410	434,847	21,202	-

32. Capital and reserves

Share capital

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

The par value of 1 share amounts to PLN 4.00

As at 31 December 2019, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares with a nominal value of PLN 4 each, which has not changed since 31 December 2018.

The Bank has not issued preferred shares.

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

Principal shareholders

The following table presents the shareholders who, as at 31 December 2018 and 31 December 2017, held at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital:

	Value of shares (PLN'000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75	97,994,700	75
Other shareholders	130,659	32,664,900	25	32,664,900	25
	522,638	130,659,600	100	130,659,600	100

During 2018 and during the period from the publication of the previous interim quarterly report for Q3 2018 until the day of the publication of this annual unconsolidated financial statements for 2018, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2019, supplementary capital was PLN 2,944,585 thousand (31 December 2018: PLN 2,944,585 thousand). Supplementary capital is designated for offsetting the Bank's financial losses or for other purposes including payment of dividends to the shareholders. The General Shareholders' Meeting decides upon the utilization of supplementary capital, but a portion of its balance amounting to one third of total share capital may be used exclusively for offsetting losses shown in the financial statements.

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

Revaluation reserve

PLN'000	31.12.2019	31.12.2018
Revaluation of financial assets measured at fair value through other comprehensive income	114,893	84,372

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

Other reserves

PLN'000	31.12.2019	31.12.2018
Reserve capital	2,345,710	2,344,537
General risk reserve	540,200	540,200
Net actuarial losses on defined benefit program valuation	(11,621)	(7,615)
Other reserves, total	2,874,289	2,877,122

On 5 June 2019 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2018, deciding to appropriate the amount of PLN 1,172 thousand for reserve capital.

Reserve capital

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

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

General risk reserve

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

Dividends

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

Dividends paid for 2018

At the meeting on June 5, 2019, the Ordinary General Meeting of Shareholders of the Bank Handlowy w Warszawie S.A. (hereinafter WZ) adopted a resolution on distribution of the net profit for 2018. The WZ resolved to appropriate the amount of PLN 488 666 904 to the dividend payment, which means that the dividend per one ordinary share is PLN 3.74. The number of shares covered by the dividend is 130,659,600.

Simultaneously, the WZ resolved to set the day of the right to the dividend for June 13, 2019 (day of dividend) and the day of the dividend payment for June 24, 2019 (day of the dividend payment).

Declared dividends

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

33. Repurchase and reverse repurchase agreements

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

Repurchase agreements

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

As at 31 December 2019, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities held for trading	212,468	214,135	Up to 1 week	214,151

* including interest

As at 31 December 2018, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities held for trading	113,972	115,208	Up to 1 week	115,224

* including interest

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

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

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

Reverse repurchase agreements

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

As at 31 December 2019, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	214,129	211,731	Up to 1 week	214,140
	175,495	216,490	Up to 1 year	176,458
	233,712	238,356	Up to 3 years	235,278
Amounts due from other financial sector entities	30,217	30,198	Up to 1 week	30,219
	653,553	696,775		656,095

*including interest

As at 31 December 2018, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	115,203	114,155	Up to 1 week	115,214
	284,064	338,962	Up to 1 year	286,245
	227,282	238,833	Up to 3 years	228,996
Amounts due from other financial sector entities	182,613	183,090	Up to 1 week	182,627
	809,162	875,040		813,082

*including interest

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

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

As at 31 December 2019 the liabilities due to short sale of securities purchased in reverse repo transactions amounted to PLN 238,408 thousand (as at 31 December 2017: PLN 348,130 thousand).

34. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and presented in the statement of financial position on a net basis when there is a legally enforceable right to offset and their settlement is intended to take place on a net basis or to realize the asset and settle the liability simultaneously.

The Bank does not offset financial assets and liabilities. Therefore, in line with requirements of IFRS 7, disclosures provided below relate only to financial assets and liabilities resulting from derivative contracts, settled by a central counterparty (CCP) - KDPW_CCP S.A. or concluded under master agreements such as ISDA, the Master Agreement recommended by the Polish Banks' Union, and other master agreements, under which, in certain breaches of the contracts' provisions, the contract may be terminated and settled in the net amount of receivables and liabilities, where such offsetting has been recognized as legal effective.

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

	31.12.2019		31.12.2018	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	2,311,662	2,435,599	1,846,788	1,822,170
The effect of offsetting	(786,882)	(786,882)	(564,111)	(564,111)
Valuation of derivatives (net) presented in the statement of financial position	1,524,780	1,648,717	1,282,677	1,258,059

	31.12.2019		31.12.2018	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Value of collateral received/placed	(302,195)	(479,391)	(198,711)	(240,288)
Assets and liabilities subject to offsetting under the master agreement	1,222,585	1,169,326	1,083,966	1,017,771
Maximum amount of potential offset	(1,043,761)	(1,043,761)	(975,365)	(975,365)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	178,824	125,565	108,601	42,406

35. Hedge accounting

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

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

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

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

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

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

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

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

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

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

Information regarding hedge effectiveness is presented below.

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

36. Fair value information

Fair value of financial assets and liabilities

Fair value is a price that would be received for selling an asset or would be paid for transferring the liability in

a transaction carried out in the conditions between the market participants, at the measurement date.

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

As at 31 December 2019

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total carrying value	Fair value*	Fair value disclosure**
Financial assets								
Cash and balances with Central Bank	16	-	3,736,706	-	-	3,736,706	-	3,736,706
Amounts due from banks measured at amortized cost	17	-	1,165,625	-	-	1,165,625	-	1,165,623
Financial assets held-for-trading measured at fair value	18	5,406,595	-	-	-	5,406,595	5,406,595	-
Debt investment financial assets measured at fair value through other comprehensive income	19	-	-	15,484,578	-	15,484,578	15,484,578	-
Shares in subsidiaries		-	-	-	105,895	105,895	-	168,250
Equity and other instruments measured at fair value through income statement	20	-	-	-	62,355	62,355	62,355	-
Amounts due from customers	21	-	23,608,775	-	-	23,608,775	-	23,538,787
		5,406,595	28,511,106	15,484,578	168,250	49,570,529	20,953,528	28,609,366
Financial liabilities								
Amounts due to banks	27	-	-	-	2,125,383	2,125,383	-	2,125,480
Financial liabilities held-for-trading	18	1,867,900	-	-	-	1,867,900	1,867,900	-
Amounts due to customers	28	-	-	-	39,849,772	39,849,772	-	39,843,837
		1,867,900	-	-	41,975,155	43,843,055	1,867,900	41,969,317

* Fair value of assets and liabilities that are recognized and measured in the statement of financial position at fair value.

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

As at 31 December 2018

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total carrying value	Fair value*	Fair value disclosure**
Financial assets								
Cash and balances with Central Bank	16	-	7,272,193	-	-	7,272,193	-	7,272,193
Amounts due from banks measured at amortized cost	17	-	1,333,816	-	-	1,333,816	-	1,333,735
Financial assets held-for-trading measured at fair value	18	2,213,849	-	-	-	2,213,849	2,213,849	-
Debt investment financial assets measured at fair value through other comprehensive income	19	-	-	14,241,363	-	14,241,363	14,241,363	-

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total carrying value	Fair value*	Fair value disclosure**
Shares in subsidiaries		-	-	-	106,075	106,075	-	149,815
Equity and other instruments measured at fair value through income statement	20	-	-	-	48,511	48,511	48,511	-
Amounts due from customers	21	-	21,853,349	-	-	21,853,349	-	21,801,583
		2,213,849	30,459,358	14,241,363	154,586	47,069,156	16,503,723	30,557,326
Financial liabilities								
Amounts due to banks	27	-	-	-	1,402,124	1,402,124	-	1,402,217
Financial liabilities held-for-trading	18	1,606,189	-	-	-	1,606,189	1,606,189	-
Amounts due to customers	28	-	-	-	38,395,885	38,395,885	-	38,394,319
		1,606,189	-	-	39,798,009	41,404,198	1,606,189	39,796,536

* Fair value of assets and liabilities that are recognized and measured in the statement of financial position at fair value.

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

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

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

In 2019, the Bank did not make any changes in the classification of financial instruments (presented by the fair value method in the statement of financial position) to categories of fair value assignment (Level I, Level II, Level III).

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

As at 31 December 2019

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	18	2,881,897	2,524,698	-	5,406,595
Derivatives		-	1,524,780	-	1,524,780
Debt securities		2,881,897	999,918	-	3,881,815
Debt investment financial assets measured at fair value through other comprehensive income	19	15,484,578	-	-	15,484,578
Equity and other instruments measured at fair value through income statement	20	825		61,530	62,355
Financial liabilities					
Financial liabilities held-for-trading	18	238,408	1,629,492	-	1,867,900
Short sale of securities		238,408	-	-	238,408
Derivatives		-	1,629,492	-	1,629,492
Hedging derivatives		-	19,226	-	19,226

As at 31 December 2018

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	18	931,893	1,281,956	-	2,213,849
Derivatives		722	1,281,955	-	1,282,677
debt securities		931,171	1	-	931,172
Debt investment financial assets measured at fair value through other comprehensive income	19	14,241,363	-	-	14,241,363
Equity and other instruments measured at fair value through income statement	20	770		47,741	48,511
Financial liabilities					
Financial liabilities held-for-trading	18	348,130	1,258,059	-	1,606,189
Short sale of securities		348,130	-	-	348,130
Derivatives		-	1,258,059	-	1,258,059

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

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

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

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

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

		01.01.-31.12.2018
		Financial assets available-for-sale
		Equity investments
PLN '000		
As at 31 December 2017		23,062
Reclassification/ Impact of adopting IFRS 9		18,186
As at 1 January 2018		41,248
Revaluation		6,493
As at the end of period		47,741

In 2019 and 2018 the Bank did not make any transfers between levels of financial instruments' fair value according to method of establishing fair value.

Fair value measurement

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

Shares in subsidiaries

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

Amounts due from customers and banks

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

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

Amounts due to banks and customers

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

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

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

37. Derecognition of financial assets

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

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

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

38. Contingent liabilities and litigation proceedings

Information on pending proceedings

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

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

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

On 10 February 2020 the Bank received a statement of claim submitted by Rotsa Sales Direct sp. z o.o. for the payment of PLN 419,712,468.48 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 33,047,245.20 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014. The deadline to respond to the statement of claim is 11 May 2020.

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

- As at 31 December 2019, the Bank was among others a party to 19 court proceedings associated directly with derivative transactions that have not been legally terminated: in 12 proceedings the Bank acted as a defendant and in 7 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank.
- The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressees of the President of UOKiK's decision in the case. The proceedings have concerned alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was the subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set in the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. As the Bank submitted extraordinary appeal on the 25 October 2017 the Supreme Court has overturned the Appeal Court's verdict and the case has been returned to the Appeal Court for a second review. The appeals proceedings has begun again. In the first quarter of 2018, the Bank received the reimbursed of the fine which was recognized in the profit and loss. In 2019 the case did not developed.
- The Bank is carefully following the changes of the legal environment arising out of the courts' case law regarding mortgage loans indexed to foreign currencies, including the judgment of the Court of Justice of the European Union (CJEU), case no. C 260/18, of 3 October 2019. The Bank has identified a number of doubts as regards interpretation of the above-mentioned judgment. As at the day of these financial statements, these doubts prevent a reliable and rational assessment of the influence of the judgment on proceedings pending before national courts and necessitate a thorough analysis of the relevant case law. Given the marginal share of mortgage loans indexed to CHF in the entire loan portfolio, the Bank finds that any court rulings on these loans that are unfavorable to the Bank should not significantly affect the Bank's financial situation.
- On September 11, 2019, CJEU passed a ruling in the case C 383/18, indicating the following interpretation of Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers (Directive): "the right of the consumer to a reduction in the total cost of the credit in the event of early repayment of the credit includes all the costs imposed on the consumer." Hence, according to the provisions of the Directive, the above-mentioned right of the consumer includes costs both related and not related to the duration of the contract. In performance of the banking activities falling under the definition of a consumer credit, the Bank charged commissions which were structurally not related to the duration of the contract, and thus not subject to reduction in the event of early repayment of a consumer credit. CJEU ruled on the interpretation of the provision of the Directive which is not directly binding upon domestic law entities and requires implementation into the national law, whose potential amendment, interpretation and application will be of significant importance in assessing customers' claims for the reimbursement of a part of commissions in the event of early repayment of a consumer credit.

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

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

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

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

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

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

Commitments due to granted and received financial and guarantees liabilities

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

<i>PLN'000</i>	31.12.2019	31.12.2018
Financial and guarantees liabilities granted		
Letters of credit	182,326	137,669
Guarantees granted	2,273,926	2,589,013
Credit lines granted	13,016,317	14,103,607
	15,472,569	16,830,289

<i>PLN'000</i>	31.12.2019	31.12.2018
Letters of credit by category		
Import letters of credit issued	174,555	137,669
Export letters of credit confirmed	7,771	-
	182,326	137,669

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

The Bank makes provisions for granted financial and guarantees commitments. As at 31 December 2019, the provisions created financial and guarantees commitments amounted to PLN 61,703 thousand (31 December 2018: PLN 26,481 thousand).

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

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

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

Movements in contingent liabilities granted that contribute to movements in loss allowance to presents as follows:

<i>PLN'000</i>	Stage 1	Stage 2	Stage 3	Total
Gross amount of contingent liabilities granted				
Gross amount of contingent liabilities granted as at 1 January 2019	15,292,316	1,505,583	32,389	16,830,288

PLN'000	Stage 1	Stage 2	Stage 3	Total
Transfer to Stage 1	56,114	(56,101)	(13)	-
Transfer to Stage 2	(485,353)	485,448	(95)	-
Transfer to Stage 3	(12)	(62,337)	62,349	-
Increase/Decrease	(1,367,426)	78,985	(25,167)	(1,313,608)
Other movements	45,049	(88,580)	(583)	(44,113)
Net amount of contingent liabilities granted as at 31 December 2019	13,540,689	1,862,998	68,881	15,472,567

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amount of contingent liabilities granted				
Gross amount of contingent liabilities granted as at 1 January 2018	15,320,016	1,495,682	37,392	16,853,090
Transfer to Stage 1	28,287	(28,287)	-	-
Transfer to Stage 2	(548,835)	548,835	-	-
Transfer to Stage 3	-	(156,025)	156,025	-
Increase/Decrease	404,636	(343,928)	(161,049)	(100,341)
Other movements	88,212	(10,694)	22	77,540
Net amount of contingent liabilities granted as at 31 December 2018	15,292,317	1,505,582	32,390	16,830,289

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

39. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2018	31.12.2017
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	214,135	115,208
liabilities on credit received	-	1,668
	214,135	116,876

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

PLN'000	31.12.2018	31.12.2017*
Assets pledged		
Debt securities held-for-trading	212,648	88,806
Debt investment financial assets measured at fair value through other comprehensive income**	165,084	170,908
Financial assets measured at amortized cost (reverse repo)	-	25,166
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market transactions	99,001	118,364
Amounts due from customers		
Stock market trading guarantee funds and settlements	592,892	312,695
	1,069,625	715,939

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

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

As at 31 December 2019, the debt securities measured at fair value through other comprehensive income presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund in the amount of PLN 165,084

thousand (31 December 2018: PLN 168,106 thousand, the collateral against loan received in the amount of PLN 2,802 thousand)

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

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

For more details on assets covering the Bank's obligations under repo transactions, see Note 33.

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

40. Custodian activities

The Bank offers both custodian services connected with securities accounts for foreign institutional investors and custodian services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2019, the Bank maintained over 14.5 thousand securities accounts (31 December 2018: approx. 14.3 thousand accounts).

41. Leases

Leases where the Bank is the lessee

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

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

Right of use of assets due to perpetual usufruct of land are presented as tangible fixed assets in the statement of financial position, while lease liabilities are presented in other liabilities.

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

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

2019			
<i>in PLN thousand</i>	Rights to perpetual usufruct	Real estate and other	Total
Cash Flows - Total	3,595	3,001	6,596
Cash Flows - Interest	3,435	901	4,336
Cash Flows - Principle Repayment	160	2,100	2,260
Weighted-average Remaining Lease Term (in years)	73.70	7.00	61.40

Weighted-average Incremental Borrowing Rate	4.3%	1.5%	3.8%
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In the statement of cash flows, interest flows are recognized in cash flows from operating activities, while the equity component is included in cash flows from financing activities.

Analysis of maturity dates of leasing liabilities

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

Bank as lessor

Irrevocable lease payments

<i>w tys. zł</i>	31.12.2019	31.12.2018
Under 1 year	-	41
1 – 5 years	5,437	6,976
Above 5 years	-	-
	5,437	7,017
Total annual amounts for agreements for undefined term	6,207	5,780

42. Additional information to the statement of cash flows statement

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

Cash

<i>PLN'000</i>	31.12.2019	31.12.2018
Cash related items:		
Cash in hand	436,216	422,064
Nostro current account in Central Bank	3,300,490	6,850,088
Current accounts in other banks (nostro, overdrafts on loro accounts)	60,098	202,665
	3,796,804	7,474,817

43. Transactions with the key management personnel

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

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

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

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

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

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

44. Related parties

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

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

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

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

Transactions with subsidiaries

The receivables and liabilities towards subsidiaries are as follows:

<i>PLN'000</i>	31.12.2019	31.12.2018
Receivables		
Overdraft facilities	71	-
	71	-
Receivables		
Opening balance	-	21
Closing balance	71	-
Deposits		
Current accounts	137,792	111,354
Term deposits	130,546	151,486
	268,338	262,840
Deposits		
Opening balance	262,840	221,989
Closing balance	268,338	262,840
Contingent liabilities granted		
Credit lines granted	80,550	80,550
<i>PLN'000</i>	2019	2018
Interest and commission income	3,165	7,287
Interest and commission expenses	1,410	1,748
Other operating income	2,180	2,185

As at 31 December 2019 and 31 December 2018, no receivables or contingent liabilities granted to subsidiaries were subject to impairment provision.

Transactions with other related entities

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

PLN'000	31.12.2019	31.12.2018
Receivables, including:	18,863	172,180
Placements	-	-
Liabilities, including:	1,427,631	722,185
Deposits*	384,825	179,854
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	500,799	449,183
Liabilities held-for-trading	285,043	379,293
Liabilities due to hedging derivatives	-	-
Contingent liabilities granted	429,279	439,748
Contingent liabilities received	62,529	34,834
Contingent transactions in derivative instruments (nominal value), including:	55,289,382	57,380,600
Interest rate instruments	34,658,882	28,293,455
Interest rate swaps (IRS)	4,980,928	6,740,216
Currency – interest rate swaps (CIRS)	28,707,666	20,561,934
Interest rate options	970,288	963,107
Futures contracts	-	28,198
Currency instruments	20,395,332	28,881,240
FX forward/spot	1,706,373	605,006
FX swap	15,457,340	26,994,552
Foreign exchange options	3,231,619	1,281,682
Securities transactions	17,581	101,504
Securities purchased pending delivery	10,872	48,266
Securities sold pending delivery	6,709	53,238
Commodity transactions	217,587	104,401
Swaps	217,587	104,401
Options	-	-

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

PLN'000	31.12.2019	31.12.2018
Interest and commission income*	25,305	28,029
Interest and commission expense*	52,855	30,061
General administrative expenses	173,522	168,913
Other operating income	6,626	7,092

* including interest and commission income in amount of PLN 1,505 thousand (2017: PLN 1,431 thousand) and interest and commission expense in amount of PLN 2 thousand (2017 : PLN 5 thousand) refer to the parent company

The Bank incurs costs and receives income on derivative transactions with Citigroup Inc. entities to hedge the Bank's position in market risk. These derivative transactions are opposite (back-to-back) to derivative transactions with other Bank clients or close the proprietary position of the Bank. The net carrying amount of financial derivative transactions with related entities as at 31 December 2019 amounted to PLN 215,756 thousand (as at 31 December 2018: PLN 69,890 thousand). The Bank runs a compression of derivative transaction portfolios' periodically. It is one of the risk-mitigation technique recommended by "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulations this in particular applies to the portfolios exceeding 500 derivative transactions.

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

The costs arising and accrued (including VAT, reflected in the Bank's costs) under concluded agreements in 2019 and 2018 mainly related to the cost of services provided to the Bank for the maintenance of the banking IT systems and advisory support and are included in general administrative expenses; income was mainly related to the provision of data processing services by the Bank to such entities and is presented in other operating income.

In 2019 capitalization of investment regarding functionality modification of Bank's IT systems took place. Total payments for Citigroup entities amounted to PLN 55,708 thousand (in 2018: PLN 32,912 thousand).

45. Employee benefits

Employee benefits are divided into the following categories:

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

Depending on their individual compensation category, employees may receive an award from the incentive fund, a bonus under the bonus scheme applicable in a given area or a discretionary annual bonus under the internal employee compensation regulations. Bonuses and awards are granted after completion of the period for which the employee's performance is evaluated. The costs of short-term benefits are expensed in the income statement in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Bank will record it as an accrued expense;

- Long-term employee benefits

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

- Employee Pension Plan

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

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

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

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

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

- other long-term employee benefits – jubilee and other long service awards and deferred cash award granted to the Management Board and people, whose professional operating has a significant impact on the Banks risk profile. From 1 of January 2015, employees with long-term work-experience (10, 20, 30 years etc.) are entitled to rewards in kind;
- employee equity benefits – in the form of phantom shares of Bank Handlowy w Warszawie S.A. and also in the form of common stock, under stock award programs based on shares of Citigroup common stock in the form of deferred stock (capital accumulation plan – CAP). In 2019 there were no employees rewarded as part of the stock award programs based on Citigroup shares. In accordance with IFRS 2 "Share-based payment", all the programs functioning in the Bank are deemed to be cash-settled programs. A provision is created for future payments and is shown in the "statement of financial position" and "General administrative expenses" in the income statement. The costs of the program are determined on the basis of the Bank's shares price or Citigroup shares price. According to IFRS, the fair value is measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value deferred shares at the reporting date times the part of the rights that were deemed acquired in that period. Detailed information concerning the employee equity benefits are presented in the further part of this Note.

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

PLN'000	31.12.2019	31.12.2018
Provision for remuneration	57,652	54,795
Provision for unused leave	11,401	11,480
Provision for employees' retirement and pension allowances	65,442	55,849
Provisions for employees' equity compensation	13,919	15,010

PLN'000	31.12.2019	31.12.2018
	148,414	137,134

The provision for retirement and pension benefits is created individually on the basis of an actuarial valuation performed periodically by an external independent actuary. The valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The Bank performed a reassessment of its estimates as at 31 December 2018, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. The discount rate was set at 2.00% and wage growth rate at 2.3%.

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

PLN'000	2019	2018
	Provision for retirement and pension allowances	Provision for retirement and pension allowances
As at 1 January	55,849	49,832
Increases (due to):	11,152	8,919
Actuarial profit/loss of revaluation	4,946	3,257
Including those resulting from:		
Change of economic assumptions	6,323	4,448
Change of demographic assumptions	-	92
Adjustments of actuarial assumptions ex post	(1,377)	(1,283)
Salary expenses	4,531	4,042
Interest expenses	1,675	1,620
Cost of past employment	-	-
Decreases (due to):	(1,557)	(2,902)
Provisions utilisation	(1,557)	(2,902)
As at 31 December	65,444	55,849

Analysis of sensitivity for significant actuarial assumptions

PLN'000	2019	2018
	Provision for retirement and pension allowances	Provision for retirement and pension allowances
Central value	65,444	55,849
Decrease of growth salary to 1 p.p.	57,616	49,165
Increase of growth salary to 1 p.p.	74,629	63,709
Decrease of rotation by 10%	68,509	58,563
Increase of rotation by 10%	62,630	53,367
Decrease of discount rate by 0.5 p.p., including:	67,772	57,611
Falling to benefits paid within 1 year	4,285	3,772
Increase of discount rate by 0.5 p.p., including:	63,499	54,087
Falling to benefits paid within 1 year	4,281	3,770

More information about defined benefit program and the accounting is in note 2.

In 2019, the Bank's expenses in respect of premiums for the employee pension plan amounted to PLN 23,757 thousand (in 2018: PLN 23,752 thousand).

Employment at the Bank:

FTEs	2019	2018
Average employment during the year	3,113	3,364
Employment at the end of the year	3,022	3,227

Description and principles of employee stock benefit schemes

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

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. "Deferred shares" within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. "Deferred shares" give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. "Deferred shares" are converted into stocks after the end of a period that is determined in the Program Rules. As a general rule, the employee has a right to options revoked at the moment of employment termination in the Citigroup, provided the termination of said contract „Capital Accumulation Program – Prospectus” for granted options. Deferred shares granted in previous years will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

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

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

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

According to the above mentioned policy's the Management Board of the Bank and other managerial staff having a significant influence on the Bank's risk profile receive variable remuneration in relation to individual performance and the Bank's financial results.

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

Variable Remuneration – Phantom shares

Transaction as per IFRS	Transactions share-based payments settled in cash in accordance with IFRS 2
Phantom Shares grant date	16 of January 2017 15 of January 2018 14 of January 2019
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	<ul style="list-style-type: none"> Phantom Shares for the President of the Management Board <ul style="list-style-type: none"> In 2017 - at least 18, 30 and 42 months after grant date in 2018 and 2019 – at least 18, 30, 42, 54, 66 Phantom Shares granted in 2017-2019 for other employees – at least 18, 30, 42 months after grant date
Vesting date	<ul style="list-style-type: none"> Phantom Shares for the President of the Management Board <ul style="list-style-type: none"> in 2017 - at least 12, 24 and 36 months after grant date in 2018 and 2019 – at least 12, 24, 36, 48, 60 Phantom Shares granted in 2017-2019 for other employees – at least 12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	<p>Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Group in</p> <ul style="list-style-type: none"> 2017: in relation to the award from 2017-2020 2018: in relation to the award from 2018-2021 2019: <ul style="list-style-type: none"> For the President of the Management Board in relation to the award from 2019-2024 For other employee in relation to the award from 2019-2022
Program settlement	At the settlement date the participants will get an amount of cash being the product held by a participant phantom shares and the arithmetic mean of the lowest and highest prices of shares of the Bank notified on WSE at the maturity date. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

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

Variable Remuneration – Deferred Cash Award

Transaction as per IFRS	Other long-term employee benefits in accordance with IAS 19
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Variable Remuneration – Deferred Cash Award

Grant date of the Deferred Cash Award

16 of January 2017
15 of January 2018
15 of January 2019

Granted amount

The amount was settled on the Deferred Cash Award grant date

Date of maturity

- Deferred Cash Award for the President of the Management Board
 - in 2017 - at least 18, 30, 42 months after grant date
 - in 2018 and 2019 – at least 18, 30, 42, 54, 66
- Deferred Cash Award granted in 2017-2019 for other employees – at least 18, 30, 42 months after grant date
- Deferred Cash Award for the President of the Management Board
 - in 2017 - at least 12, 24 and 36 months after grant date
 - in 2018 and 2019 – at least 12, 24, 36, 48, 60
- Deferred Cash Award granted in 2017-2019 for other employees – at least 12, 24 and 36 months after grant date

Vesting date

Terms and conditions for acquiring rights to the award

Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Group

- 2017: in relation to the award from 2017-2020
- 2018:
 - For the President of the Management Board in relation to the award from 2019-2024
 - For other employee in relation to the award from 2018-2021
- 2019:
 - For the President of the Management Board in relation to the award from 2019-2024
 - For other employee in relation to the award from 2019-2022

Program settlement

At the settlement date the participants will get an amount of Deferred Cash tranche with interest counted for the deferral period till the payment date. The interest rate was approved by the Resolution of the Supervisory Board in January 2017, 2018 and 2019. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank's Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

Assumptions of valuation of the employee equity benefit schemes

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

Phantom Shares Program	Grant Date	Exercise price / stock price at grant date [PLN]	Number of eligible employees	Number of options / shares
1	16.01.2017	77.31	41	15,771
2	15.01.2018	83.02	41	37,685
3	14.01.2019	69.10	41	64,081

	CAP Program	Phantom Shares Program
Period to acquire the title (in years)	25% after each of the following years	40% after 0.5 of a year and 20% after 3 following years, 40% after a year and 12% after 5 following years or 60% after 0.5 of a year and 13.33% after 3 following years, 60% after a year and 8% after 5 following years
Expected average life cycle of the instrument	At the time of rights acquisition	At the time of rights acquisition
Probability of premature termination of employment (annual staff turnover for awarded employees)	0.00%	8.70%
Fair value of one instrument* (in USD)	77.92 (USD)	52.20 (PLN)

*Varies depending on the date of exercise

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

	31.12.2019		31.12.2018	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	112	50.07	1,413	49.73
Executed/redeemed/expired in the period	112	-	1,301	-
At the end of the period	-	-	112	50.07

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

	31.12.2019		31.12.2018	
	Number	Weighted average share price [PLN]	Number	Weighted average share price [PLN]
At the beginning of the period	111,492	79.49	107,713	80.21
Allocated in the period	127,171	69.10	115,643	83.02
Executed in the period	119,313	54.62	110,294	71.55
Redeemed/expired in the period	1,813	-	1,570	-
At the end of the period	117,537	74.67	111,492	79.49

On 31 December 2019, the book value of liabilities from the phantom share amounted to PLN 13,919 thousand (31 December 2018: PLN 14,988 thousand). The costs recognized in this respect in 2019 amounted to PLN 4,041 thousand (in 2018: 8,818 thousand, including CAP costs).

46. Risk management

RISK MANAGEMENT ORGANIZATION STRUCTURE AND PROCESS

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

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

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

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

- approving a strategy of the Bank's activity and the rules of prudent and stable risk management, including operational risk strategy;
- approving a general level of the Bank's risk appetite within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP),
- approving the fundamental organizational structure of the Bank, determined by the Bank's Management Board and matched to the size and the profile of incurred risks.

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

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

- approves the organizational structure of the Bank with well-defined, transparent and consistent roles and responsibilities, adequate for the size and risk profile ensuring that the functions of risk measurement, monitoring and control are independent from risk taking activities;
- defines the Bank's Risk's Profile, by establishing significant risk types, simultaneously ensuring introducing processes of managing them and/or allocation of internal capital;
- establishes the principles of prudent and stable risk management which constitute, together with the ICAAP Document, the risk management strategy, including operational risk strategy;

- approves the acceptable risk level in the Bank ("Overall risk appetite"), within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP).

The Management Board of Bank has nominated an independent Member of the Management Board responsible for risk management sector (CRO) reporting directly to the President of the Management Board and responsible for the management and control of credit risk, market risk, and operational risk, including:

- introducing a risk management system in the Bank as well as risk identification, measurement, control and reporting methods;
- developing the risk management policy and developing risk assessment and control systems;
- making credit decisions in compliance with the principles resulting from the credit procedures as well as documents determining the Bank's credit policy;
- ensuring the proper safety level of the credit portfolio;
- managing the problem loans portfolio (including collections and debt restructurings).

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

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

In the risk management area there are following Committees:

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

Member of the Management Board responsible for Risk Management Sector presents the organizational structure of the Risk Management Sector to the Management Board of the Bank, taking into account the specificity of credit, market, liquidity and operational risk management in the respective customer segments. For this purpose, organizational units have been set up within the Risk Management Sector that are responsible for:

- managing credit risk of the Corporate Bank;
- managing credit risk of the Commercial Bank;
- managing credit risk of the Consumer Bank;
- managing impaired receivables;
- managing market risk, including interest rate risk in banking book;
- managing liquidity risk;
- managing operational risk;
- managing the equity process and model risk;
- model validation;
- supporting risk management in the above areas including in control functions;
- the process of comprehensive and continuous assessment of credit risk (Fundamental Credit Risk Assessment).

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

Risk management in the Bank is supported by a range of IT systems in the following areas:

- obligor and exposure credit risk assessment;
- credit, market and operational risk measurement, reporting and monitoring;
- monitoring and reporting of collateral;
- calculation and reporting of expected credit losses.

Significant Risks

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

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

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

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

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

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

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

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

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

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk.

CREDIT RISK

The main objective in the field of credit risk management is to support the long-term plan for the stable development of the credit portfolio while maintaining its proper quality. Credit risk is minimized through the Bank's regulations and implemented controls.

Principles of the Credit Risk Management Policy

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

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

- Joint business and independent risk management responsibility for the quality of the credit portfolio and process as well as for credit loss;
- Adherence to portfolio guidelines to ensure diversification and maintain risk/capital alignment;
- Credit authorities system assuming that credit authority can be given to authorized, trained and experienced staff based upon their professional experience and tested qualifications concerning the risk assessment and making credit decisions;
- A minimum of two authorized credit approvers with delegated credit authority required for all significant exposures;
- Dependence of approval level from the risk taken – exposures with a higher risk (including size and risk assessment) require approval at a higher decision-making level;
- Diverse risk rating standards, adequate to every obligor and exposure, including remedial actions;
- Risk rating of every obligor and exposure in a consistent rating process using risk rating models and scorecards (scoring);
- Periodic monitoring of customers' business results and identification of negative changes in their standing which require immediate reclassification of exposure or remedial actions;
- Exceptions to Credit Policies are approved at higher levels within the organization to ensure control over risk policy implementation by higher level managers in accordance with internal Bank's normative acts and generally applicable laws and regulations issued by the appropriate regulators.

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

Credit risk in this area is managed by means of:

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

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

Credit risk assessment and rating

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

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

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

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

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

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

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

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

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

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

Credit risk monitoring

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

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

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

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

In addition to various management information reports analysis, risk managers and business representatives take part in

regular round tables regarding the portfolio in order to review business pipelines and discuss the credit issues.

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

Risk mitigation

Credit risk mitigation within the set risk appetite is an ongoing and key element of the Bank's risk management processes. It is achieved as described below:

- Customers selection and credit confirmation:
 - Target market and customer selection criteria are determined;
 - Maximum credit exposure against the obligor is determined through obligor limits related to customer risk ratings and/or through risk acceptance criteria;
 - Limits are established and monitored in order to mitigate exposure concentration risk;
 - Robust credit due diligence standards are established and maintained;
 - Credit process standards are established in order to ensure a consistent approach to each segment;
 - Credit documentation standards are applied;
- Collateral is used in order to minimize the risk and to manage residual risk:
 - Establishing acceptable collaterals and their classification in view of regain possibility in case of execution;
 - Setting collaterals in right law's form (documentation standards);
 - Expected collateral structure or credit value in relation to collateral value is determined;
 - The value of collateral on property and equipment is determined by dedicated specialty functions within the Bank using external valuation where required;
- Monitoring and early warning system:
 - Credit exposures periodic monitoring and an early warning system are used;
 - Regular inspection of portfolio ensuring identification of adverse tendencies and concentration;
 - Active portfolio management includes implementation of necessary modifications to the credit strategy based on portfolio reviews or stress testing.

Policy of collateral acceptance

Apart from general rules of credit risk mitigation, the Bank has defined specific Corporate and Consumer rules of accepting, assessing, establishing and monitoring various types of collateral, including set up of mortgages, accepting guarantees and similar forms of support as well as pledge on fixed assets and assignment of receivables (jointly: "collateral"). These rules serve to minimize the residual risk associated with collateral.

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

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

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

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

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

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

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

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

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

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

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

Concentration in credit risk

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

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

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

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

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

Obligor exposure concentration risk

The Bank limits the concentration of its exposure to a single customer or a group of customers with common ownership and/or organization. As at 31 December 2019, the Bank's exposure in bank portfolio transactions with groups of customers whose aggregate exposure exceeded 10% of the Bank's equity (as defined below in this report) amounted to PLN 9,286,610 thousand, i.e., 189 % of equity (31 December 2018: PLN 8 792 580 thousand, i.e., 177%). In 2019 and 2018 the Bank complied with the provisions on limits of concentration of exposure.

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

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

PLN'000	31.12.2019			31.12.2018		
	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure
CLIENT 9	545,000	-	545,000	-	-	-
GROUP 10	536,000	-	536,000	600,000	-	600,000
Total	6,346,612	1,396,130	7,742,742	4,349,481	2,094,424	6,443,904

*Excluding investment in shares and other securities

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

As at 31 December 2019, the Bank did not have an exposure to one entity exceeding the statutory exposure concentration limits.

Concentration of exposure in individual industries*

Given that there is a large diversity of customers representing individual industries, the table below shows aggregate data for the Bank's gross exposure to the industrial sectors.

Sector of the economy according to NACE*	31.12.2019		31.12.2018	
	PLN'000	%	PLN'000	%
Wholesale trade, except of motor vehicles	4,672,631	17.40%	4,695,369	17.43%
Financial service activities, excluding insurance and pension funds	3,912,715	14.57%	3,385,386	12.57%
Production and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,919,053	7.15%	2,760,531	10.25%
Activities of head offices; consulting related to the management	1,499,261	5.58%	1,028,293	3.82%
Retail trade, except of motor vehicles	1,141,985	4.25%	1,065,354	3.96%
Production of food products	1,134,162	4.22%	673,491	2.50%
Manufacture of fabricated metal products, except machinery and equipment	946,640	3.53%	1,084,312	4.03%
Mining of metal ores	937,344	3.49%	893,827	3.32%
Production of electrical equipment	906,495	3.38%	929,839	3.45%
Production and processing of coke and refined petroleum products	770,363	2.87%	545,554	2.03%
„10" industries total	17,840,649	66.44%	17,061,956	63.34%
Other industries	9,011,227	33.56%	9,873,294	36.66%
Total	26,851,876	100.00%	26,935,250	100.00%

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

Gross amounts due from customers and banks by type of business:

PLN'000	31.12.2019	31.12.2018
Gross amounts due from economic entities and banks		
Financial	4,116,998	3,515,374
Production	4,956,141	4,281,519
Services	4,512,671	4,793,637
Other	4,106,024	3,730,136
	17,691,835	16,320,666
Gross amounts due from individual customers	7,706,513	7,534,795
	(see Note 18, 22)	
	25,398,348	23,855,461

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 12.

Determination of Expected Credit Loss

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

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

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

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

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

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

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

- a) delay in the debtor's repayment of any material loan obligations to the Bank is 90 days or more,
- b) it is unlikely that the debtor fully fulfills his credit obligations towards the Bank, without the institution having to undertake activities such as collateral execution.

In order to assess if there has been an increase in credit risk, for Institutional Banking client, 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),
- Occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, (assuming that those changes does not imply deterioration in future payment flows).

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

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

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

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

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

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

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

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

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

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

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

- Significant financial difficulties of the client, which are described in detail in ICG / CCB / Micro Credit Procedures;
- Reduction of the client credit rating by an accepted by the Bank External Credit Assessment Institution¹;
- 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.

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

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.

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

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

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

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

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

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

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

Macroeconomic scenarios in the area of institutional including below variables:

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

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

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

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

Scenarios and macroeconomic variables are updated on a quarterly basis.

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

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

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

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

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

PLN'000	Note	31.12.2019	31.12.2018
Gross receivables due from the Central Bank	16	3,300,490	6,850,129
Gross receivables due from banks	17	1,168,219	1,337,726
Gross receivables due from institutional customers	21	16,589,343	14,982,940
Gross receivables due from individual customers	21	7,706,513	7,534,795
Debt securities held-for-trading	18	3,881,815	931,172
Derivative instruments	18	1,524,780	1,282,677
Debt investment financial assets measured at fair value through other comprehensive income	19	15,484,578	14,241,363
Other financial assets	26	87,532	126,357
Contingent liabilities granted	38	15,472,569	16,830,289
		65 215 839	64,117,448

* At the end of 2019, the value of collateral reducing the maximum exposure to credit risk for claims on institutional clients was PLN 3,289,249 thousand. PLN compared to 2,708,768 thousand. PLN in 2018.

** At the end of 2019, the value of collateral reducing the maximum exposure to credit risk for claims on individual customers amounted to PLN 1,922,434 thousand. PLN compared to 1 676 541 thousand. PLN in 2018.

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 21.

Modification of financial assets

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

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

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

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

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

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

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

Commitment due to customers in terms of credit risk:

PLN '000	31.12.2019				Total including interest accrued for exposure at Stage 3
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total	
Impaired receivables (Stage 3)					

PLN '000	31.12.2019				
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total	Total including interest accrued for exposure at Stage 3
Gross amount	524,477	315,109	-	839,586	1,150,930
Impairment provision	(314,206)	(242,829)	-	(557,035)	(868,379)
Net amount	210,271	72,280	-	282,551	282,551
Not impaired receivables (Stage 2)					
By risk rating					
Risk rating 1-4-	209,328	-	3	209,331	209,331
Risk rating +5-6-	1,062,988	-	-	1,062,988	1,062,993
Risk rating +7 and greater	103,981	-	-	103,981	103,981
By delinquency					
No delinquency	-	836,264	-	836,264	836,264
1-30 days	-	102,726	-	102,726	102,726
31-90 days	-	40,256	-	40,256	40,256
Gross amount	1,376,297	979,246	3	2,355,545	2,355,550
Impairment provision	(18,896)	(61,054)	-	(79,950)	(79,954)
Net amount	1,357,401	918,192	3	2,275,595	2,275,595
Not impaired receivables (Stage 1)					
By risk rating					
Risk rating 1-4-	11,955,828	-	751,707	12,707,535	12,707,543
Risk rating +5-6-	2,734,035	-	416,497	3,150,531	3,150,531
By delinquency					
No delinquency	-	6,248,508	13	6,248,521	6,248,521
1-30 days	-	163,650	-	163,650	163,650
31-90 days	-	-	-	-	-
Gross amount	14,689,863	6,412,158	1,168,217	22,270,238	22,270,245
Impairment provision	(28,174)	(23,216)	(2,594)	(53,984)	(53,991)
Net amount	14,661,689	6,388,942	1,165,623	22,216,254	22,216,254
Total gross value	16,590,636	7,706,513	1,168,220	25,465,369	25,776,725
Impairment provision	(361,276)	(327,099)	(2,594)	(690,969)	(1,002,325)
Total net value	16,229,361	7,379,414	1,165,626	24,774,400	24,774,400

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

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

PLN '000	31.12.2018		
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks
Impaired receivables (Stage 3)			
Gross amount	345,865	378,450	-
Impairment provision	(242,015)	(291,485)	-
Net amount	103,850	86,965	-
Not impaired receivables (Stage 2)			
By risk rating			
Risk rating 1-4-	56,158	-	2
Risk rating +5-6-	632,681	-	-
Risk rating +7 and greater	143,279	-	-
By delinquency			

PLN '000	31.12.2018		
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks
No delinquency	-	657,366	-
1-30 days	-	105,640	-
31-90 days	-	46,976	-
Gross amount	832,118	809,982	2
Impairment provision	(16,387)	(58,389)	-
Net amount	815,731	751,593	2
Not impaired receivables (Stage 1)			
By risk rating			
Risk rating 1-4-	11,480,608	-	822,767
Risk rating +5-6-	2,324,349	-	514,957
By delinquency			
No delinquency	-	6,140,736	-
1-30 days	-	205,627	-
31-90 days	-	-	-
Gross amount	13,804,957	6,346,363	1,337,724
Impairment provision	(28,882)	(27,228)	(3,910)
Net amount	13,776,075	6,319,135	1,333,814
Total gross value	14,982,940	7,534,795	1,337,726
Impairment provision	(287,284)	(377,102)	(3,910)
Total net value	14,695,656	7,157,693	1,333,816

Structure of derivatives in terms of credit risk

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

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

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

Structure of granted contingent liabilities in terms of credit risk as at 31 December 2019:

PLN '000	31.12.2019		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Contingent liabilities granted (Stage3)	67,574	1,306	-
by risk rating			
Risk rating +7and greater	67,574	-	-

Contingent liabilities granted (Stage 2)	639,821	1,219,855	3,323
by risk rating	-	-	-
Risk rating 1-4-	132,895	-	-
Risk rating+5-6-	426,514	-	3,323
Risk rating +7and greater	80,412	-	-
Contingent liabilities granted (Stage 2)	8,208,273	4,964,158	368,259
by risk rating	-	-	-
Risk rating 1-4-	6,858,859	-	364,951
Risk rating+5-6-	1,349,414	-	3,308
Total	8,915,668	6,185,319	371,582

Structure of granted contingent liabilities in terms of credit risk as at 31 December 2018:

PLN '000	31.12.2018		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Contingent liabilities granted (Stage3)	30,988	1,401	-
by risk rating			
Risk rating +7and greater	30,988	-	-
Contingent liabilities granted (Stage 2)	410,128	1,095,455	-
by risk rating			
Risk rating 1-4-	17,754	-	-
Risk rating+5-6-	380,297	-	-
Risk rating +7and greater	12,077	-	-
Contingent liabilities granted (Stage 2)	10,037,725	4,798,669	455,923
by risk rating			
Risk rating 1-4-	8,457,729	-	449,124
Risk rating+5-6-	1,579,996	-	6,799
Total	10,478,841	5,895,525	455,923

“Forbearance” practices

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

The Bank considers as "forborne" exposures, where the Bank grants debtor experiencing financial difficulties preferential financing conditions (i.e. on non-market conditions), which would not have been considered in a different situation. Preferential financing conditions are considered situations in which for example the yield of the modified facility is lower than the contractual yield prior to the restructuring and/or the yield on the modified loan is below a market yield for the relevant tenor and credit risk.

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

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

The process of assigning "forborne" status for exposures is closely related to the credit risk management process, including the impairment recognition process for exposures.

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

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

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

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

Exposure values in the "forborne" status:

PLN '000	As of	
	31.12.2019	31.12.2018
Receivables without recognized impairment	23,457,563	21,793,420
Receivables without recognized impairment (Stage 1), including:	21,102,020	20,151,320
non-financial sector entities	18,071,898	18,098,556
Institutional customers	11,659,740	11,752,193
Individual customers	6,412,158	6,346,363
Receivables without recognized impairment (Stage 2), including:	2,355,543	1,642,100
non-financial sector entities	2,355,529	1,642,100
Institutional customers	1,376,283	832,118
Individual customers	979,246	809,982
Receivables with recognized impairment (Stage 3), including:	839,586	724,315
non-financial sector entities	839,586	724,315
Institutional customers, including:	524,477	345,865
„forborne”	169,297	78,281
Individual customers, including:	315,109	378,450
„forborne”	19,195	19,791
Total gross amount, including:	24,297,149	22,517,735
non-financial sector entities	21,267,013	20,464,971
Institutional customers, including:	13,560,500	12,930,176
„forborne”	169,297	78,281
Individual customers, including:	7,706,513	7,534,795
„forborne”	19,195	19,791
Provision for expected credit losses	(688,374)	(664,386)
On „forborne” receivables	(76,363)	(59,555)
Total net amounts due from customers, including:	23,608,775	21,853,349
„forborne” receivables	112,129	38,517

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

LIQUIDITY RISK

The processes and organization of liquidity risk management

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

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

Liquidity risk management is based on:

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

taking into account best market practice.

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

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

Liquidity management

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

The Bank analyses and manages liquidity risk in several time horizons while distinguishing current, short-, mid- and long-term liquidity, to which appropriate risk measurement methods and limits apply. The adopted measures and limits aim to limit excessive concentration in terms of the balance sheet structure and sources of financing.

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

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

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

Current liquidity management is the responsibility of the Financial Markets and Corporate Banking Sector and comprises the management of the balances on the Bank's nostro accounts and especially the mandatory reserve account with NBP while applying available money market products and central bank facilities.

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

In 2019 the Bank has not implemented any changes significant in liquidity risk management processes, procedures, systems and policies.

Funding and Liquidity Plan

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

Liquidity risk management tools

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

The supervisory liquidity measures

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

	31.12.2019	31.12.2018	Change
M1 - Short-term liquidity gap (PLN)	9,126,042	6,517,776	2,608,266
M2 - Short-term liquidity ratio	1.26	1.18	0.08
M3 - Coverage of illiquid assets with regulatory capital	4.98	6.08	-1.10
M4 - Coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	1.58	1.44	0.14
LCR	163%	167%	-4%

Internal liquidity risk management tools

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

- Gap analysis –MAR/S2;
- Stress scenarios;
- Liquidity ratios;
- Market Triggers;
- Significant Funding Sources;
- Contingency Funding Plan.

Stress scenarios

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

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

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

Contingency Funding Plan

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

The Contingency Funding Plan defines:

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

The levels of the cumulative liquidity gap in stress conditions and the level of liquid assets as at 31 December 2019 and 31 December 2018.

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

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	20,551,058	391,612	778,774	235,278	29,947,974
Liabilities	8,169,834	4,479,486	19,091	-	39,236,285
Balance-sheet gap in the period	12,381,224	(4,087,874)	759,683	235,278	(9,288,311)
Conditional derivative transactions – inflows	22,718,553	5,726,397	14,890,210	12,000,485	16,165,204
Conditional derivative transactions – outflows	22,792,316	5,752,159	14,908,722	11,913,776	16,189,238
Off-balance-sheet gap in the period	(73,763)	(25,762)	(18,512)	86,709	(24,034)
Potential utilization of credit lines granted	566,316	477,866	415,396	-	(1,459,578)
Cumulative gap	11,741,145	7,149,643	7,475,418	7,797,405	(55,362)

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

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	20,949,048	424,245	928,496	-	26,940,235
Liabilities	8,842,965	4,852,306	20,039	-	35,526,714
Balance-sheet gap in the period	12,106,083	(4,428,061)	908,457	-	(8,586,479)
Conditional derivative transactions – inflows	22,005,562	9,318,228	10,587,090	7,196,028	17,354,174
Conditional derivative transactions – outflows	21,989,621	9,329,696	10,812,183	7,219,376	17,308,080
Off-balance-sheet gap in the period	15,941	(11,468)	(225,093)	(23,348)	46,094
Potential utilization of credit lines granted	693,740	861,272	591,626	-	(2,146,676)
Cumulative gap	11,428,284	6,127,483	6,219,221	6,195,873	(197,836)

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

PLN'000	31.12.2019	31.12.2018	Change
Liquid assets, including:	22,875,757	22,229,407	646,350
nostro account, deposits in NBP and stable part of cash	3,509,364	7,056,872	(3,547,508)
debt securities held-for-trading	3,881,815	931,172	2,950,643
debt financial assets measured at fair value through other comprehensive income**	15,484,578	14,241,363	1,243,215
Cumulative liquidity gap up to 1 year	7,475,418	6,219,221	1,256,197
Coverage of the gap with liquid assets	Positive gap	Positive gap	

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

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

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

of the effective rate on interest liabilities.

As at 31 December 2019

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	28	2,125,383	2,108,383	2,000	15,000	-	-
Financial liabilities held-for-trading							
Short positions in financial assets	19	238,408	238,408	-	-	-	-
Amounts due to customers, including:	29	39,849,777	37,290,908	1,233,802	1,291,452	33,615	-
Deposits from financial sector entities	29	4,764,396	4,762,460	260	1,676	-	-
Deposits from non-financial sector entities	29	34,817,070	32,386,198	1,172,136	1,234,324	24,412	-
Other liabilities	29	268,311	142,250	61,406	55,452	9,203	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	1,974,225	41,303	35,685	99,783	1,077,118	720,336
Hedging derivatives		19,226	-	-	-	19,226	-
Unused credit lines liabilities	39	13,016,317	11,701,520	-	236,039	870,275	208,483
Guarantee lines	39	2,273,926	2,273,926	-	-	-	-
		59,497,262	53,654,448	1,271,487	1,642,274	2,000,234	928,819
Derivatives settled on a gross basis							
Inflows		72,862,917	23,340,936	6,612,768	15,187,355	19,967,407	7,754,451
Outflows		72,760,656	23,414,973	6,643,496	15,055,276	19,883,352	7,763,559
		102,261	(74,037)	(30,728)	132,079	84,055	(9,108)

As at 31 December 2018

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	28	1,402,124	1,384,456	2,668	15,000	-	-
Financial liabilities held-for-trading							
Short positions in financial assets	19	348,130	348,130	-	-	-	-
Amounts due to customers, including:	29	38,395,886	36,861,909	1,075,856	436,919	21,202	-
Deposits from financial sector entities	29	7,213,788	7,211,320	396	2,072	-	-
Deposits from non-financial sector entities	29	30,945,201	29,500,233	1,061,639	363,370	19,959	-
Other liabilities	29	236,897	150,356	13,821	71,477	1,243	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	1,404,897	31,043	36,410	55,593	864,397	417,454
Hedging derivatives							
Unused credit lines liabilities	39	14,103,607	11,214,127	7,008	578,036	2,132,056	172,380
Guarantee lines	39	2,589,013	2,589,013	-	-	-	-
		58,243,657	52,428,678	1,121,942	1,085,548	3,017,655	589,834
Derivatives settled on a gross basis							
Inflows		65,735,761	22,003,732	9,558,726	10,313,851	15,521,711	8,337,741
Outflows		65,529,703	21,987,856	9,546,774	10,300,415	15,373,789	8,320,869
		206,058	15,876	11,952	13,436	147,922	16,872

MARKET RISK

The processes and organization of market risk management

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

The objective of market risk management is to ensure that the extent of risk accepted within the Bank corresponds to the level acceptable to the shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Bank. The adopted market risk measures and limits aim to prevent excessive concentration of exposure to a single risk factor or a group of related risk factors, as well as to determine the overall maximum level of risk taken in the trading or banking book.

Market risk management in the Bank is based on:

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

taking into account best market practice.

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

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

Market risk management

Scope of risk

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

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

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

Measurement of the pricing risk of the bank portfolios

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

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

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

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

It is assumed that:

- transactions with a fixed interest rate (such as term deposits, interbank deposits, portfolio of debt securities available-for-sale with a fixed interest rate, granted loans both repaid in full at maturity and repaid in installments) are classified into appropriate revaluation bands in accordance with their maturity dates;
- transactions with a floating interest rate, updated at a regular frequency (primarily, loans granted with interest set based on a specific base/market rate such as, e.g., WIBOR 1M) are classified into appropriate revaluation bands in accordance with the nearest interest rate revaluation date;
- transactions with an administrated floating interest rate (i.e., any changes in the interest rate and its revaluation date are reserved to sole decision of the Bank) or undefined maturity or interest rate revaluation date are classified into appropriate revaluation bands in accordance with historically observed or expert assessed shifts in the moment and scale of change in the interest rate of given positions in relation to change in the market interest rates (model of minimizing product margin variability). This group of transactions / balance-sheet positions includes among others:

current accounts, card loans, overdraft facilities. Additionally, early loan repayments are taken into account based on analysis of actual repayments made by customers before the due date and product interest rate revaluation profiles are set on that basis. This pertains particularly to installment loans;

- transactions insensitive to changes of interest rates, including cash, fixed assets, equity, other assets/liabilities, are classified into the longest revaluation band;
- transactions executed directly by the Financial Markets and Corporate Banking Sector for the purpose of management of interest rate risk and liquidity risk (Financial Markets and Corporate Banking Sector own portfolio) are always classified into appropriate revaluation bands in accordance with the contracted dates.

The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation of the trading portfolio. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and gains/losses on sale of assets or cancelling of obligations.

The Interest Rate Exposure (IRE) method is used to estimate the potential impact of a specific parallel shift in the interest rate curves on interest income from the bank portfolio before tax which can be earned in a specific period of time. This is a prospective indicator, equivalent to Factor Sensitivity of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time horizon of 10 years; however, for the purpose of current monitoring and limiting of interest rate risk positions in bank portfolios, the Bank normally applies IRE measures with one-year and five-year time horizons.

The table below presents the IRE measures for the Bank as at 31 December 2019 and 31 December 2018. The list has been broken down into the main currencies, i.e., PLN, USD and EUR, which jointly account for over 90% of the Bank's balance-sheet.

PLN'000	31.12.2019		31.12.2018	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	27,103	78,293	10,444	87,021
USD	15,045	19,732	16,798	31,102
EUR	9,980	9,134	(3,103)	1,973

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

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

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

- management of the Bank's liquidity;
- hedging against the risk transferred to the Financial Markets and Corporate Banking Sector from other organizational units of the Bank;
- opening of own interest rate risk positions on the Bank's books by the Financial Markets and Corporate Banking Sector.

In order to avoid excessive fluctuations in the Bank's capital funds, caused by the revaluation of assets held-for-sale, the maximum limits of DV01 (Dollar Value of 1 basis point), which determines the potential change in the value of risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given time horizon), caused by a shift in the market interest rate by 1 basis point upwards are established for this kind of portfolio. The limits also concern the open positions in derivatives (i.e. interest rate swap transactions), carried out to hedge the fair value of the portfolio.

Hedge accounting program

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

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

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

PLN '000	31.12.2019			Total in the period 01.01.2019 – 31.12.2019		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(3,182)	(3,489)	307	(3,089)	(2,528)	(3,412)
USD	(159)	(159)	-	(109)	-	(186)
EUR	(357)	(357)	-	(439)	(311)	(533)

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

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

Measurement of the market risk of the trading portfolios

The following methods are applicable in measurement of the risk of the trading portfolios:

- Factor Sensitivity;
- Value at Risk (VaR); and
- Stress testing.

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

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

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

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

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

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

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

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

The values of significant exposures to the interest rate risk of the trading portfolios in terms of DV01 in 2018 are presented in the table below:

PLN'000	31.12.2019	31.12.2018	In the period 01.01.2019 – 31.12.2019		
			Average	Maximum	Minimum
PLN	(54)	671	249	974	(568)
EUR	(13)	100	(23)	105	(161)
USD	144	54	48	157	(37)

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

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

The table below presents the levels of risk measured by VaR (net of economic hedges of the portfolio of securities available-for-sale) broken down by FX risk and interest rate risk position in 2019:

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

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

Equity instruments risk

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

The Bank's FX exposure

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

31.12.2019

PLN'000	Balance-sheet transactions		Contingent derivatives transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	4,338,594	5,529,517	21,386,884	20,185,257	10,704
USD	1,642,192	5,122,036	20,863,504	17,393,833	(10,173)
GBP	17,279	389,976	742,199	371,438	(1,936)
CHF	468,768	227,731	2,029,207	2,274,823	(4,579)
Other currencies	96,845	201,225	2,173,226	2,064,715	4,131
	6,563,678	11,470,485	47,195,020	42,290,066	(1,853)

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

31.12.2018

PLN'000	Balance-sheet transactions		Contingent derivatives transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	4,623,988	4,574,873	15,661,387	15,672,613	37,890
USD	1,530,170	3,765,163	22,219,596	19,954,563	30,040
GBP	12,269	445,558	894,004	461,895	(1,180)
CHF	607,154	215,197	2,352,073	2,748,500	(4,470)
Other currencies	88,204	234,376	2,046,088	1,892,725	7,191
	6,861,785	9,235,167	43,173,148	40,730,296	69,471

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

OPERATIONAL RISK

Strategic goals and assumptions of the operational risk management system

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

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

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

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

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

The implementation of the strategy by the Management Board shall be assessed by the Supervisory Board, assisted by Audit Committee and Risk and Capital Management Committee based on synthetic reports submitted by the Management Board with frequency correlated with the committees' meetings, determining the scale and types of operational risk that the Bank is exposed to, methods of operational risk management, probability of risk's occurrence, assessment of potential negative impact of operational risk management methods, as well as results of operational risk profile and operational risk appetite monitoring. If necessary, after evaluation the Supervisory Board may request revision of the entire or partial internal control system.

Operational risk definition

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

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

Operational Risk does not cover strategic risks or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

Definition of Operational Risk covers: Compliance risk, Technological risk, Outsourcing risk, Misappropriation risk, Money Laundering risk, Information Security risk, External or internal events risk (Continuity of Business), Tax and Accounting risk, Product risk, Legal risk, Models risk, Staffing risk, Concentration risk, Conduct risk.

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

Rules of operational risk identification

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

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

Operational Risk Profile

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

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

Measurement and assessment

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

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

Risk tolerance framework, risk control and mitigation

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

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

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

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

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

Monitoring and reporting

The Risk and Capital Management Committee and Operational Risk, Control and Compliance Committees, are accountable for ongoing monitoring of operational risk. Quality and effectiveness of operational risk management processes (including the self-assessment process) in the respective organizational units of the Bank are subject to inspections and assessment carried out by the internal audit.

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

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

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

Assumptions of internal control of operational risk

Within the Management Board, one of its members – Member of the Management Board responsible for Risk Management Sector – supervises Independent Control and Operational Risk Department.

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

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

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

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

The Audit Department (IA-Internal Audit) is responsible for independent assessment of the effectiveness of operational risk management processes and assessment of adequacy and effectiveness of operational risk management system, as well as for its regular reviews.

Results of internal and external audits are considered in the management information system, the process of decision making with regard to risk management and management of the Bank.

EQUITY MANAGEMENT

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

The Bank's equity amounted to PLN 7,034,125 thousand as at 31 December 2019 (as at 31 December 2018: PLN 7,007,052 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 5 076 713 thousand (as at 31 December 2018: PLN 4,907,581 thousand). Such a capital level is considered sufficient for conducting business activity. The capital level is regularly monitored by using the capital adequacy ratio.

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

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

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

Capital adequacy ratio*

PLN'000	31.12.2019	31.12.2018
Common Equity Tier 1 Capital	5,072,707	4,907,581
Total capital requirements, including:	2,391,083	2,373,377
credit risk capital requirements	1,908,219	1,910,386
counterparty risk capital requirements	95,758	50,713
Credit valuation correction capital requirements	26,314	28,466
excess concentration and large exposures risks capital requirements	-	14,469
total market risk capital requirements	79,847	94,799
operational risk capital requirements	280,945	274,544
Common Equity Tier 1 Capital ratio	17.0%	16.5%

*Total capital ratio was calculated according to the rules stated in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

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

47. Subsequent events

The most fundamental risk factor in the first half 2020 is SARS-CoV-2 virus causing contagious COVID-19 disease. Initially it was identified in China, while the unprecedented scale of its spread to other countries caused the World Health Organization (WHO) on March 11, 2020 to officially declare a pandemic virus. The spread of the virus will affect all major economies in the world, reducing labor and consumer mobility and leading to supply chain disturbances. As a result, economic growth in Poland and among its primary trading partners may turn out to be much lower than previously forecasted. The magnitude of the economic growth drop is currently difficult to estimate. Such a significant slowdown will certainly translate into a deterioration of the financial situation and growing liquidity problems, mainly in the SME sector.

In the first stage of the pandemic in Poland, industries such as transport, tourism, clothing and the production of electronic equipment will suffer the greatest negative impact.

The Polish government has taken unprecedented steps to limit the spread of the virus in Poland. They concern the closing of the country's borders to foreigners, the ban on organizing public gatherings of over 50 people and the closing of all universities, schools and kindergartens. On March 20, 2020, epidemic state was declared in Poland.

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

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

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

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

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

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

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

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

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

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

Signatures of Management Board Members

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