TRANSLATION

BANK HANDLOWY W WARSZAWIE S.A.

2015 ANNUAL REPORT

MARCH 2016

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2015	2014	2015	2014
Interest income	1,227,976	1,478,451	293,437	352,911
Fee and commission income	655,465	662,203	156,630	158,070
Profit before tax	780,041	1,187,691	186,399	283,506
Net profit	620,227	971,423	148,209	231,882
Total comprehensive income	404,682	1,061,579	96,703	253,402
Increase/decrease of net cash	621,264	612,687	148,457	146,250
Total assets	49,442,300	49,603,377	11,602,088	11,637,702
Amounts due to banks	6,922,125	5,004,190	1,624,340	1,174,059
Amounts due to customers	31,764,349	29,803,545	7,453,795	6,992,362
Shareholders' equity	6,782,466	7,348,585	1,591,568	1,724,089
Share capital	522,638	522,638	122,642	122,619
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	51.91	56.24	12.18	13.19
Capital adequacy ratio (in %)	16.8	17.2	16.8	17.2
Earnings per share (PLN/EUR)	4.75	7.43	1.13	1.77
Diluted net earnings per share (PLN/EUR)	4.75	7.43	1.13	1.77
Declared or paid dividends per share (PLN/EUR)*	4.68	7.43	1.10	1.74

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

***The following foreign exchange rates were applied to convert PLN into EUR: for the statement of financial position - NBP mid exchange rate as at 31 December 2015 - PLN 4.2615 (as at 31 December 2014: PLN 4.2623); for the income statement, statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in 2015 – PLN 4.1848 (in 2014: PLN 4.1893).*

TRANSLATION

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

31 DECEMBER 2015

MARCH 2016

CONTENTS

Income statement

PLN'000 For the period	Note	2015	2014
Interest and similar income	4	1,227,976	1,478,451
Interest expense and similar charges	4	(265,266)	(328,885)
Net interest income	4	**962,710**	**1,149,566**
Fee and commission income	5	655,465	662,203
Fee and commission expense	5	(61,406)	(85,585)
Net fee and commission income	5	**594,059**	**576,618**
Dividend income	6	**22,957**	**48,867**
Net income on trading financial instruments and revaluation	7	**290,708**	**382,105**
Net gain on debt investment securities available-for-sale		**145,246**	**229,922**
Net gain on capital investment instruments available-for-sale		**2,232**	**6,429**
Net gain on hedge accounting	8	**7,949**	**(379)**
Other operating income	9	41,174	56,274
Other operating expenses	9	(51,906)	(41,363)
Net other operating income	9	**(10,732)**	**14,911**
General administrative expenses	10	**(1,183,516)**	**(1,178,686)**
Depreciation expense	11	**(68,085)**	**(66,318)**
Profit/loss on sale of other assets	12	**102**	**6,384**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	13	**16,411**	**18,272**
Profit before tax		**780,041**	**1,187,691**
Income tax expense	14	**(159,814)**	**(216,268)**
Net profit		**620,227**	**971,423**
Weighted average number of ordinary shares (in pcs)	15	130,659,600	130,659,600
Net earnings per share (PLN)	15	4.75	7.43
Diluted net earnings per share (PLN)	15	4.75	7.43

Statement of comprehensive income

PLN'000 For the period	Note	2015	2014
Net profit		**620,227**	**971,423**
Other comprehensive income which may be reclassified to the income statement:			
Net valuation of financial assets available-for-sale	16	(216,431)	95,812
Other comprehensive income which may not be reclassified to the income statement:			
Net actuarial profits (losses) on specific services program valuation	16	886	(5,656)
Other comprehensive income after tax		**(215,545)**	**90,156**
Total comprehensive income for the period		**404,682**	**1,061,579**

Explanatory notes on pages 10-80 are an integral part of the annual financial statements.

Statement of financial position

PLN'000	As at Note	31.12.2015	31.12.2014
ASSETS			
Cash and balances with Central Bank	17	2,170,237	1,522,949
Amounts due from banks	18	756,859	2,065,614
Financial assets held-for-trading	19	6,959,692	12,721,335
Hedging derivates	20	1,795	-
Debt securities available-for-sale	21	18,351,259	14,435,099
Equity investments	22	299,946	240,417
Amounts due from customers	23	18,847,968	16,545,902
Tangible fixed assets	24	342,941	347,855
Intangible assets	25	1,370,392	1,386,118
Receivables due to current income tax		14,351	10,358
Deferred income tax asset	27	162,059	157,815
Other assets	28	162,873	167,802
Non-current assets held-for-sale		1,928	2,113
Total assets		**49,442,300**	**49,603,377**
LIABILITIES			
Amounts due to banks	29	6,922,125	5,004,190
Financial liabilities held-for-trading	19	3,247,523	6,770,922
Hedging derivates	20	112,383	-
Amounts due to customers	30	31,764,349	29,803,545
Provisions	31	22,814	26,188
Other liabilities	32	590,640	649,947
Total liabilities		**42,659,834**	**42,254,792**
EQUITY			
Share capital	33	522,638	522,638
Supplementary capital	33	2,944,585	2,944,585
Revaluation reserve	33	(163,809)	52,622
Other reserves	33	2,858,825	2,857,317
Retained earnings		620,227	971,423
Total equity		**6,782,466**	**7,348,585**
Total liabilities and equity		**49,442,300**	**49,603,377**

Explanatory notes on pages 10-80 are an integral part of the annual financial statements.

Statement of changes in equity

PLN '000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
As at 1 January, 2015	**522,638**	**2,944,585**	**52,622**	**2,857,317**	**971,423**	**7,348,585**
Total comprehensive income, including:	-	-	(216,431)	886	620,227	404,682
net profit	-	-	-	-	620,227	620,227
valuation of financial assets available-for-sale	-	-	(216,431)	-	-	(216,431)
net actuarial profits on specific services program valuation	-	-	-	886	-	886
Dividends paid	-	-	-	-	(970,801)	(970,801)
Transfer to capital	-	-	-	622	(622)	-
As at 31 December 2015	**522,638**	**2,944,585**	**(163,809)**	**2,858,825**	**620,227**	**6,782,466**

Note: 16, 34

PLN'000	Share capital	Supplementary capital	Revaluation reserves	Other reserves	Retained earnings	Total equity
As at 1 January 2014	**522,638**	**2,944,585**	**(43,190)**	**2,862,407**	**934,782**	**7,221,222**
Total comprehensive income,including:	-	-	95,812	(5,656)	971,423	1,061,579
net profit	-	-	-	-	971,423	971,423
valuation of financial assets available-for-sale	-	-	95,812	-	-	95,812
net actuarial losses on specific services program valuation	-	-	-	(5,656)	-	(5,656)
Dividends paid	-	-	-	-	(934,216)	(934,216)
Transfer to capital	-	-	-	566	(566)	-
As at 31 December 2014	**522,638**	**2,944,585**	**52,622**	**2,857,317**	**971,423**	**7,348,585**

Note: 16, 34

Explanatory notes on pages 10-80 are an integral part of the annual financial statements.

Cash flow statement

PLN'000 For the period	2015	2014
A. Cash flows from operating activities		
I. Net profit	**620,227**	**971,423**
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:	**157,115**	**(478,287)**
Current and deferred income tax recognized in income statement	159,814	216,268
Depreciation expense	68,085	66,318
Net impairment due to financial assets value loss	(13,625)	(18,361)
Net provisions (recoveries)	13,420	(3,950)
Net interest income	(962,710)	(1,149,566)
Dividend income from subsidiaries	(15,955)	(43,910)
Profit/loss on sale of investments	(77)	(6,497)
Net unrealized exchange differences	(8,836)	(8,072)
Other adjustments	6,946	5,121
Cash flows from operating income before changes in operating assets and liabilities	**(752,938)**	**(942,649)**
Change in operating assets (excl. cash and cash equivalents)	**440,185**	**(3,992,889)**
Change in amounts due from banks	1,279,141	1,342,186
Change in amounts due from customers	(2,284,406)	(1,727,020)
Change in debt securities available-for-sale	(4,285,478)	3,346,747
Change in equity investments	3,502	7,264
Change in financial assets held-for-trading	5,724,295	(6,955,427)
Change in hedging derivates	(1,795)	-
Change in assets available-for-sale	-	(1,174)
Change in other assets	4,926	(5,465)
Change in operating liabilities (excl. cash and cash equivalents)	**469,868**	**4,457,251**
Change in amounts due to banks	1,992,067	(1,233,188)
Change in amounts due to customers	1,963,420	3,179,243
Change in liabilities held-for-trading	(3,523,399)	2,574,026
Change in amounts due to hedging derivatives	112,383	(24,710)
Change in other liabilities	(74,603)	(38,120)
Interest received	**1,303,894**	**1,422,811**
Interest paid	**(264,967)**	**(332,369)**
Income tax paid	**(117,514)**	**(128,783)**
III. Net cash flows from operating activities	**1,698,755**	**1,454,795**
B. Cash flows from investing activities		
Purchase of tangible fixed assets	(34,165)	(47,097)
Disposal of tangible fixed assets	20	16,955
Purchase of intangible assets	(20,597)	(6,775)
Disposal of fixed assets available-for-sale	250	16,452
Dividends received	15,955	44,009
Other investing inflows	58	-
Net cash flows from investing activities	**(38,479)**	**23,544**
C. Cash flows from financing activities		
Dividends paid	(970,801)	(934,216)
Inflows due to long-term loans from financial sector entities	56,461	197,578
Repayment of long-term loans from financial sector entities	(132,366)	(141,934)
Net cash flows from financing activities	**(1,046,706)**	**(878,572)**
D. Exchange rates differences resulting from cash and cash equivalents conversion	**7,694**	**12,920**
E. Net increase in cash and cash equivalents	**621,264**	**612,687**
F. Cash at the beginning of the period	**1,732,844**	**1,120,157**
G. Cash at the end of the period (see Note 43)	**2,354,108**	**1,732,844**

Explanatory notes on pages 10-80 are an integral part of the annual financial statements.

Explanatory notes to the financial statements

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. Citibank Overseas Investment Corporation with headquarters in New Castle, USA, a subsidiary of Citibank N.A. with headquarters in New York, USA, is the ultimate parent entity for the Bank.

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 and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with further amendments) and respective operating regulations.

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

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

Basis of preparation

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

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 including derivatives and available-for-sale financial assets with the exception of assets and liabilities whose fair value cannot be estimated in a reliable way. Other assets and liabilities are presented at amortized cost (loans and receivables, financial liabilities other than measured at fair value in the income statement) or at cost decreased by depreciation/ amortization and impairment losses.

The principal accounting policies, used when preparing these financial statements, were presented below. These policies were applied in the presented years continuously.

Standards and interpretations approved or awaiting the European Union's approval that can have influence on financial statements of the Bank:

- IFRS 9 "Financial Instruments", awaiting EU's endorsement, was published by IASB on 24th July 2014 and is the final version superseding the previously published ones. The new standard implements changes in relation to IAS 39 in respect of the classification and measurement of financial assets and financial liabilities, impairment methodology that will focus on expected credit risk losses, and hedge accounting. IFRS 9 does not comprise hedge accounting of portfolio of financial assets or financial liabilities. The standard will be in force from the 1st January 2018. The Bank is in the process of work related to the analysis of the requirements of the new standard, estimation of the potential impact on its financial statement and implementation of IFRS 9 into accounting and operational processes in the Bank. At present the Bank claims that the new standard will have an impact on the presentation and measurment of certain financial instruments in the financial statements as well as the calculation of impairment of financial assets.

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

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

In order to prepare financial statements in accordance with IFRS, the management of the Bank has to make judgments, estimates and assumptions that have an impact on the amounts presented in the financial statements.

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

Estimates and associated assumptions are reviewed on an ongoing basis. Revisions to 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.

Foreign currency

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

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

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

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

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

Financial assets and liabilities

Classification

The Bank classifies its financial instruments into the following categories:

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

In the reporting period, the Bank did not classify assets to investments held-to-maturity. The Bank classifies financial assets to particular categories on the date of their first recognition.

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

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

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

(b) Loans and receivables

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

(c) Financial assets available-for-sale

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

(d) Other financial liabilities

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

Cash

Cash is cash in hand and receivables on current balances in banks, described in detail in note 43 "Cash flow statement".

Recognition and derecognition

Transactions of purchase or sale of financial assets at fair value through profit or loss and available-for-sale are recognized in the 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 mobilization of funds for the borrower.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the 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.

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

Valuation

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

After initial recognition the Bank measures financial assets including derivatives that are assets at fair value without deducting transactional costs which it may incur in connection with the sale or disposal of assets except for loans and receivables which are measured at amortized cost using the effective interest rate method, and investments in equity instruments for which no quotations on the active market are available and whose fair value cannot be reasonably determined.

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

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

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

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

Dividends on available-for-sale equity investments are recognized in profit and loss when the entity's right to receive payment is established.

The fair value of shares in companies other than subsidiaries and associates listed on the active market is based on their current purchase price. If the market for specific financial assets is inactive (this also applies to unlisted securities), the Bank determines fair value using appropriate valuation techniques.

Derivative instruments

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

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

Hedge accounting

The Bank designates certain derivatives for hedging positions in hedge accounting. The Bank applies fair value hedge accounting provided that meeting the criteria from IAS 39 – "Financial Instruments: Recognition and Measurement".

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

Fair value hedge is recognized in the following way: profits or losses resulting from valuation of fair value of hedging instrument (hedging derivatives) are recognized in the income statement. Changes in valuation to fair value of financial instruments designated as hedging positions are recognized – in a part resulting from hedged risk- in the income statement. In case of other parts, the changes in carrying amount are booked in accordance with the general rules for a given class of financial instruments.

Offsetting financial instruments

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

Cash pooling

The Bank offers its clients cash management services which consolidate balances within the structure of related accounts ("cash pooling"). Such transactions net the positive and negative balances of participants' current accounts on a designated account of the entity which manages the settlements. The consolidation of balances is executed at the end of the working day and at the beginning of the next working day the transaction is reversed. Cash pooling transactions are presented on a net basis only if they meet the requirements of IAS 39 regarding derecognition of financial assets and liabilities from the statement of financial position. Accounts receivable presented on a gross basis are presented as Amounts due from customers and accounts payable as customers' deposits.

Repurchase and resale agreements, repo / reverse repo transactions

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

Impairment of assets measured at amortized cost

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

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

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

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

Non-recoverable loans (i.e., loans for which the 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 "Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted".

Forbearance

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

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

Impairment allowances for incurred but not recognized credit losses

The Bank creates impairment allowances for incurred but not recognized credit losses ("IBNR"). The IBNR impairment allowances process covers all receivables for which no evidence of impairment was found or for which such evidence was found but the individual assessment of possible impairment did not confirm the need to write them down. The IBNR impairment allowances reflect the level of a credit loss incurred but not reported, which will be identified at the level of exposure in the period of loss recognition adopted by the Bank. The IBNR impairment allowances are calculated using statistical parameters for the Banks of assets combined in portfolios having similar credit risk characteristics. In the financial statements, the Bank corrects credit exposure with the value of the IBNR impairment allowances.

Impairment allowances for individually significant assets

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

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

Impairment allowances for individually not significant assets

The level of the 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 write-off 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 commitments are shown in the liabilities section "Provisions."

Impairment of financial assets available-for-sale

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

Impairment of financial assets measured at cost

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

Impairment of assets other than financial assets

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

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

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

Calculation of recoverable amount

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

Reversal of revaluation write-offs

Revaluation write-offs for impairment, excluding goodwill, are reversed if the estimations for recoverable amount have changed.

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

Equity investments – shares in subsidiaries

Subsidiaries – definition

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

Subsidiaries - recognition and measurement

Investments in subsidiaries in the Bank's separate financial statements are recognized using the cost method in accordance with IAS 27. The cost method is a method of accounting for an investment whereby the investment is recognized at cost.

Equity investments – shares in other entities

Shares in entities other than dependent entities are classified as financial assets available-for-sale.

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 independently of objective evidence of impairment. The revaluation write-off for impairment for goodwill can't be reversed.

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

Property and equipment and intangible assets (excluding goodwill)

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

Subsequent expenditure relating to an item of property and equipment or intangibles is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the 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 2015.

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%-20.0%
Computers	34.0%
Office equipment	20.0%
Other tangible fixed assets	7.0%-20.0%
Computer software and licenses (except the main operating systems, which are depreciated at the rate of 10% and 20%)	34.0%
Other intangible fixed assets	20.0%
Leasehold improvements - compliant with lease agreement period	

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

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

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

Property and equipment includes rights to perpetual usufruct of land.

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

Employee benefits

Short-term employee benefits

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

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

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

Share-based payments

Within the equity compensation plans the selected employees get awards under stock option programs based on stock options granted on Citigroup common stock (SOP), under stock award programs based on shares of Citigroup common stock in the form of deferred stock (CAP) and also under stock award programs based on phantom shares of Bank Handlowy w Warszawie S.A. In the year 2015 the SOP programme was completed. All the options which had not been completed until the 29th of October, 2015 expired.

In accordance with IFRS 2 "Share-based payment", all the programs functioning in the Bank are deemed to be cash-settled programs. A provision is created for future payments and is shown in "statement of financial position" and in "General administrative expenses" in the income statement. The costs of the program are determined on the basis of a valuation model for the option program and based on the Bank's shares price or Citigroup shares price for share-based programs. According to IFRS, the fair value is measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value of the options or deferred shares at the reporting date times the part of the rights that were deemed acquired in that period.

Long-term employee benefits

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

A component of variable remuneration granted to the Management Board and to the persons holding the managerial positions, having a significant impact on the Bank's risk profile, is also the deferred cash prize described in detail in Note 46 "Employee benefits".

Defined contribution plans

The Bank enables its employees to join a pension plan, which is described in detail in Note 46. The Bank pays contributions for employees who participate in the plan into a separate fund and has no subsequent obligation to pay further contributions; hence, this is a defined contribution plan in accordance with IAS 19 ("Employee Benefits"). Contributions are recognized as an expense in the related period.

Provisions

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

Restructuring provision

A restructuring provision is recorded when the following conditions have been met: (i) the 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.

Equity

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

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

Accruals and prepayments

The Bank records accruals and prepayments of expenses primarily in relation to the Bank's overhead expenses in reporting periods to which they relate.

Calculating net income

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

Interest income and interest expenses

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

The effective interest rate method calculates the amortized cost of a financial asset or a financial liability and allocates interest income or interest expense to appropriate periods. The effective interest rate is a rate that discounts the estimated futures inflows or payments in the expected period until the maturity of the financial instrument to the carrying value of a financial asset or a financial liability. When calculating the effective interest rate, the 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.

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

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

Penalty interests resulting from income tax exposure are included in "Other operational income" or "Other operational expenses" in the income statement.

Fee and commission income and expenses

Commission and fee income is generated when the 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.

Commissions for services rendered and for executing significant transactions are recognized in the income statement, in proportion to the completion of the services rendered, or as a single amount after completing the rendering of a service, respectively and are shown in commission income.

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

Income and expense from distribution of insurance products

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

- income on account of services provided as an insurance agent, and

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

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

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

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

If the 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.

Hedge accounting income

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

Other operating income and expenses

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

Income tax

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

A deferred tax provision and asset are calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities in the statement of financial position and the tax base of assets and liabilities. In the statement of financial position the 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.

Non-current assets held-for-sale

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

Non-current assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell and are not subject to depreciation.

No depreciation or amortization applies to such assets.

Accounting estimates and judgments

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

Fair value of derivatives

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

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

In case of valuation of own credit counterparty risk (DVA), the 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 change of, inter alia, fx rates and interests rates, (ii) change of CDS quotes (iii) changes of credit risk ratings.

Impairment of loans

At each balance sheet date, the Bank assesses whether there is an objective evidence of impairment of loan exposures. If so, the Bank records a impairmaint loss equal to the difference between the carrying value and the estimated present value of the future cash flows from a given loan exposure. The Bank applies collective analysis of financial assets in respect of which evidence of impairment has not been identified individually, or in spite of finding the evidence of impairment, the individual assessment of the given asset has not indicated the necessity of recording an impairment loss. For the purpose of collective evaluation of impairment, the credit exposures are grouped in order to ensure the uniformity of credit risk attached to the given portfolio. For the purpose of calculation of the amount to be provisioned against balance sheet exposures analyzed collectively the Bank has applied, among others, the probability of default (PD) and loss resulting from default (LGD).

The Bank uses estimates to determine whether there is objective evidence of impairment, calculate the present value of future cash flows and estimate impairment loss group method. Estimates may include observable data indicating an adverse change in macroeconomic conditions or standing of borrower's qualified to a particular portfolio. If necessary, historical loss experience may be adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based.

The methodology and assumptions used to determine the impairment level of loans are regularly reviewed and updated, as required. Further, data are backtested (based on historical data) to compare the actual amounts with estimated credit impairment, what may have influence on methodology applied by the 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 basing on the financial plan reflecting the adopted assumptions on the future economic conditions and the expected Bank's performances, the discount rate used in cash flow forecasts and the growth rate used to extrapolate cash flow forecasts beyond the period covered by the financial plan.

Employee benefits

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

3. Segment reporting

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 2015, 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 2015, i.e. 7 March 2016.

4. Net interest income

PLN'000	**2015**	**2014**
Interest and similar income due to:		
Balances with Central Bank	16,726	25,017
Amounts due from banks	38,001	60,270
Amounts from customers, including:	774,063	936,372
financial sector entities	19,893	18,381
non-financial sector entities	754,170	917,991
Debt securities available-for-sale	297,497	363,255
Debt securities held-for-trading	73,416	93,537
Hedging derivates	28,273	-
	1,227,976	**1,478,451**
Interest expense and similar charges due to:		
Amounts due to banks	(40,967)	(39,220)
Amounts due to financial sector entities	(60,878)	(89,294)
Amounts due to non-financial sector entities	(113,624)	(194,961)
Loans and advances received	(1,536)	(2,768)
Derivatives in hedge accounting	(48,261)	(2,642)
	(265,266)	**(328,885)**
Net interest income	**962,710**	**1,149,566**

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

5. Net fee and commission income

PLN'000	**2015**	**2014**
Fee and commission income:		
Insurance and investment products (agency)	119,656	145,495
Payment and credit cards	188,001	205,391
Payment services	110,993	114,167
Custody services	123,637	111,433
Charges from cash loans	2,606	3,228
Cash management services on customers' accounts	26,454	27,617
Granted guarantee liabilities	16,343	14,991
Granted financial liabilities	5,420	6,226
Other	62,355	33,655
	655,465	**662,203**
Fee and commission expense:		
Payment and credit cards	(24,977)	(50,248)
Fees paid to the National Depository for Securities (KDPW)	(19,367)	(20,473)
Brokers fees	(4,512)	(4,073)
Other	(12,550)	(10,791)
	(61,406)	**(85,585)**
Net fee and commission income	**594,059**	**576,618**

The net fee and commission income for 2015 comprises commission income (other than income covered by the calculation of the effective interest rate process) related to financial assets and liabilities not measured at fair value through profit or loss in the amount of PLN 194,649 thousand (for 2014: PLN 211,693 thousand) and commission expenses in the amount of PLN 24,977 thousand (for 2014: PLN 50,248 thousand).

6. Dividend income

Dividend income amounted to PLN 22,957 thousand in 2015 (2014: PLN 48,867 thousand) include dividends received and due from the Bank's subsidiaries - PLN 15,955 thousand (in 2014: PLN 43,910 thousand). The remaining amount of dividends was received from entities with no control equity interest of the Bank.

7. Net income on trading financial instruments and revaluation

PLN'000	**2015**	**2014**
Net income on financial instruments measured at fair value through profit of loss from:		
Debt instruments	(29,914)	112,538
Derivative instruments, including:	54,091	(22,690)
Interest rate derivatives	53,614	(22,964)
	24,177	**89,848**
Net profit on foreign exchange		
Net profit on foreign currency derivatives	361,841	292,999
Revaluation	(95,310)	(742)
	266,531	**292,257**
Net income on trading financial instruments and revaluation	**290,708**	**382,105**

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

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

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

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

8. Hedge accounting income

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

Detailed information on hedge accounting applied in the Bank is presented in the further part of these Financial Statements in note 37.

9. Net other operating income

PLN'000	**2015**	**2014**
Other operating income		
Services provided for related parties	12,002	13,834
Rental of office space	10,449	10,029
Reversal of provision on litigations	-	5,679

PLN'000	**2015**	**2014**
Other	18,723	26,732
	41,174	**56,274**
Other operating expenses		
Amicable procedure and debt collection expenses	(19,509)	(20,480)
Fixed assets held-for-sale valuation	-	(1,152)
Fixed assets held-for-sale maintenance cost	(173)	(592)
Creation of provisions for litigations (net)	(15,598)	-
Other	(16,626)	(19,139)
	(51,906)	**(41,363)**
Net other operating income	**(10,732)**	**14,911**

10. General administrative expenses

PLN'000	**2015**	**2014**
Staff expenses		
Remuneration costs, including:	(391,511)	(390,756)
Provisions for retirement allowances	(24,117)	(22,999)
Bonuses and rewards, including:	(91,163)	(105,564)
Payments related to own equity instruments	(10,215)	(14,861)
Rewards for long time employment	(45)	(779)
Social insurance costs	(65,489)	(65,467)
	(548,163)	**(561,787)**
Administrative expenses		
Telecommunication fees and hardware purchases	(195,089)	(168,021)
Costs of external services, including advisory, audit, consulting services	(65,219)	(70,833)
Building maintenance and rent costs	(81,976)	(99,360)
Advertising and marketing costs	(10,595)	(24,951)
Cash management service, KIR service and other transactional costs	(42,580)	(50,831)
Costs of external services related to the distribution of banking products	(15,717)	(63,933)
Postal services, office supplies and printmaking costs	(10,067)	(13,675)
Training and education costs	(2,709)	(3,888)
Banking supervisory expenses	(3,744)	(3,201)
Bank Guarantee Funds costs	(130,954)	(37,482)
Other expenses	(76,703)	(80,724)
	(635,353)	**(616,899)**
General administrative expenses, total	**(1,183,516)**	**(1,178,686)**

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

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

11. Depreciation expense

PLN'000	2015	2014
Depreciation of property and equipment	(33,932)	(31,543)
Amortization of intangible assets	(34,153)	(34,775)
Depreciation expense, total	**(68,085)**	**(66,318)**

12. Sale of other assets

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

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

PLN'000	2015			
	Institutional customers	Retail customers	Banks	Total
Impairment allowances for financial assets:				
Equity investments	(14)	-	-	(14)
Amounts due from banks and customers	(62,299)	(110,977)	(3,900)	(177,176)
Amounts due from matured transactions in derivative instruments	(766)	-	-	(766)
	(63,079)	**(110,977)**	**(3,900)**	**(177,956)**
Reversals of impairment allowances for financial assets:				
Amounts due from banks and customers	61,464	91,436	4,972	157,872
Amounts due from matured transactions in derivative instruments	1,871	-	-	1,871
Recovery on sale of debt, previously written-off	(224)	27,929	-	27,705
Other	(2,745)	6,877	-	4,132
	60,366	**126,242**	**4,972**	**191,580**
Net impairment due to financial assets value losses	**(2,713)**	**15,265**	**1,072**	**13,624**
Establish of provisions for granted financial and guarantee commitments	(25,950)	(6)	-	(25,956)
Release of provisions for granted financial and guarantee commitments	28,062	681	-	28,743
Net impairment due to provisions for granted financial and guarantee commitments	**2,112**	**675**	**-**	**2,787**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	**(601)**	**15,940**	**1,072**	**16,411**

PLN'000	2014			
	Institutional customers	Retail customers	Banks	Total
Impairment write-offs of financial assets:				
Amounts due from banks and customers	(94,028)	(115,753)	(4,503)	(214,284)
Amounts due from matured transactions in derivative instruments	(302)	-	-	(302)
Other	(5,663)	1,537	-	(4,126)
	(99,993)	**(114,216)**	**(4,503)**	**(218,712)**
Reversals of impairment write-offs of financial assets:				
Equity investments	109	-	-	109
Amounts due from banks and customers	94,249	118,613	2,803	215,665
Amounts due from matured transactions in derivative instruments	690	-	-	690
Recovery on sale of debt, previously written-off	792	19,816	-	20,608
	95,840	**138,429**	**2,803**	**237,072**
Net impairment due to financial assets value losses	**(4,153)**	**24,213**	**(1,700)**	**18,360**
Establishment of provisions for granted financial and guarantee commitments	(30,666)	(435)	-	(31,101)
Release of provisions for granted financial and guarantee commitments	30,977	36	-	31,013
Net impairment due to provisions for granted financial and guarantee commitments	**311**	**(399)**	**-**	**(88)**
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	**(3,842)**	**23,814**	**(1,700)**	**18,272**

14. Income tax expense

Recognized in the income statement

PLN'000	2015	2014
Current tax		
Current year	(113,304)	(200,095)
Adjustments for prior years	(194)	8,922
	(113,498)	**(191,173)**
Deferred tax		
Origination and reversal of temporary differences	(46,316)	(25,072)
Movement in receivables arising from tax deductions	-	(23)
	(46,316)	**(25,095)**
Total income tax expense in income statement	**(159,814)**	**(216,268)**

Reconciliation of effective tax rate

PLN'000	2015	2014
Profit before tax	780,041	1,187,691
Income tax at the domestic corporate tax rate of 19%	(148,208)	(225,661)
Impairment write-offs not constituting deductible expenses	(11,559)	(10,227)
Deductible income not recognized in the income statement	(629)	(323)
Non taxable income	4,362	9,285
Technological relier	-	9,637
Other permanent differences, including other non-deductible expenses	(3,780)	1,021
Total tax expenses	**(159,814)**	**(216,268)**
Effective tax rate	**20.49%**	**18.21%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2015 is related to debt and equity instruments available-for-sale and valuation of defined benefit plan and amounted to PLN 39,543 thousand (31 December 2014: PLN (11,017) thousand).

15. Earnings per share

As at 31 December 2015, earnings per share amounted to PLN 4.75 (31 December 2014: PLN 7.43).

The calculation of earnings per share as at 31 December 2015 was based on profit attributable to shareholders of PLN 620,227 thousand (31 December 2014: PLN 971,423 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2015 of 130,659,600 (31 December 2014: 130,659,600).

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

16. Changes in other comprehensive income

Deferred income tax and reclassification included in other comprehensive income concern the valuation of financial assets available-for-sale (AFS) recognized in the revaluation reserve and valuation of specific services program recognized in the other reserves.

PLN'000	**Gross amount**	**Deferred income tax**	**Net amount**
As at 1 January 2015	**57,983**	**(11,017)**	**46,966**
AFS valuation change	(121,952)	23,170	(98,782)
Valuation of sold AFS moved to income statement	(145,246)	27,597	(117,649)
Net actuarial profits on defined benefit plan	1,093	(207)	886
As at 31 December 2015	**(208,122)**	**39,543**	**(168,579)**

PLN'000	**Gross amount**	**Deferred income tax**	**Net amount**
As at 1 January 2014	**(53,321)**	**10,131**	**(43,190)**
AFS valuation change	348,208	(66,159)	282,049
Valuation of sold AFS moved to income statement	(229,922)	43,685	(186,237)
Net actuarial losses on defined benefit plan	(6,982)	1,326	(5,656)
As at 31 December 2014	**57,983**	**(11,017)**	**46,966**

17. Cash and balances with the Central Bank

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

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

Declared balance of obligatory reserve amounted as at 31 December 2015 to PLN 1,277,754 thousand (31 December 2014: PLN 1,105,461 thousand).

18. Amounts due from banks

PLN'000	31.12.2015	31.12.2014
Current accounts	184,201	210,353
Deposits	28,111	406,948
Loans and advances	4,461	359,072
Unlisted securities	28,455	28,456
Liabilities due to purchased securities with repurchase agreement	215,166	681,694
Deposits pledged as collateral of derivative instruments and stock market transactions	286,641	381,971
Other receivables	11,574	-
Total gross amount	**758,609**	**2,068,494**
Impairment write-offs	(1,750)	(2,880)
Total net amounts due from banks	**756,859**	**2,065,614**

The movement in amounts due from banks is as follows:

PLN'000	2015	2014
As at 1 January	**(2,880)**	**(1,173)**
Increases (due to):		
Write-offs creation	(3,900)	(4,503)
Other	-	(7)
Decreases (due to):		
Write-offs release	4,972	2,803
Other	58	-
As at 31 December	**(1,750)**	**(2,880)**

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

19. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN'000	31.12.2015	31.12.2014
Debt securities held-for-trading		
Bonds and notes issued by:		
Banks*	379,866	137,770
Other financial entities	33,054	-
Non financial entities	-	14,799
Central governments	4,279,640	6,944,306
	4,692,560	**7,096,875**
Including:		
Listed on active market	4,297,762	6,284,719
Unlisted on active market	394,798	812,156
Derivative financial instruments	**2,267,132**	**5,624,460**
Financial assets held-for-trading, total	**6,959,692**	**12,721,335**

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

Financial liabilities held-for-trading

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

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

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

Derivative financial instruments as at 31 December 2015

PLN'000	Nominal amount with remaining life of				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	**29,606,742**	**25,704,772**	**65,253,560**	**17,039,073**	**137,604,147**	**1,833,332**	**1,910,807**
FRA	14,448,907	5,482,363	2,360,000	-	22,291,270	8,191	6,617
Interest rate swaps (IRS)	11,139,647	15,847,092	52,692,575	12,731,037	92,410,351	1,533,367	1,636,670
Currency-interest rate swaps (CIRS)	3,103,899	4,375,317	9,855,708	4,308,036	21,642,960	289,872	265,389
Interest rate options	-	-	345,277	-	345,277	1,748	1,748
Futures*	914,289	-	-	-	914,289	154	383
Currency instruments	**22,998,714**	**7,398,703**	**2,842,795**	**49,994**	**33,290,206**	**337,491**	**249,663**
FX forward	1,798,010	1,300,349	923,125	49,994	4,071,478	53,699	34,668
FX swap	19,188,781	2,359,480	-	-	21,548,261	231,367	162,205
Foreign exchange options	2,011,923	3,738,874	1,919,670	-	7,670,467	52,425	52,790
Securities transactions	**1,790,280**	**-**	**-**	**-**	**1,790,280**	**1,575**	**4,252**
Securities purchased / sold pending delivery	1,790,280	-	-	-	1,790,280	1,575	4,252
Commodity transactions	**175,897**	**446,005**	**260,071**	**-**	**881,973**	**94,734**	**94,699**
Swaps	122,107	430,807	260,071	-	812,985	94,720	94,685
Options	53,790	15,198	-	-	68,988	14	14
Total derivative instruments	**54,571,633**	**33,549,480**	**68,356,426**	**17,089,067**	**173,566,606**	**2,267,132**	**2,259,421**

**Exchange-traded products*

Derivative financial instruments as at 31 December 2014

PLN'000	Nominal amount with remaining life of				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	**40,543,483**	**72,737,320**	**137,373,801**	**26,354,969**	**277,009,573**	**5,225,862**	**5,298,847**
FRA	24,750,000	16,070,000	8,750,000	-	49,570,000	33,155	24,400
Interest rate swaps (IRS)	11,814,453	51,697,423	114,835,056	21,507,411	199,854,343	4,799,519	4,911,757
Currency-interest rate swaps (CIRS)	3,911,001	4,969,897	13,179,080	4,847,558	26,907,536	388,329	357,596
Interest rate options	-	-	609,665	-	609,665	4,859	4,902
Futures*	68,029	-	-	-	68,029	-	192
Currency instruments	**17,589,669**	**8,563,334**	**3,827,361**	**62,766**	**30,043,130**	**367,745**	**434,964**
FX forward	1,930,755	1,185,365	179,438	62,766	3,358,324	45,669	82,794
FX swap	14,311,477	5,419,599	1,923,420	-	21,654,496	273,103	303,479
Foreign exchange options	1,347,437	1,958,370	1,724,503	-	5,030,310	48,973	48,691
Securities transactions	**889,035**	**-**	**-**	**-**	**889,035**	**1,234**	**1,978**
Securities purchased / sold pending delivery	889,035	-	-	-	889,035	1,234	1,978

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
Commodity transactions	**259,056**	**227,009**	**-**	**-**	**486,065**	**29,619**	**29,588**
Swap	192,385	227,009	-	-	419,394	29,619	29,588
Options	66,671	-	-	-	66,671	-	-
Total derivative instruments	**59,281,243**	**81,527,663**	**141,201,162**	**26,417,735**	**308,427,803**	**5,624,460**	**5,765,377**

**Exchange-traded products*

20. Hedging derivates

Assets - Positive valuation

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

Liabilities – Negative valuation

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

Hedging derivates as at 31 December 2015

PLN'000	Nominal amount with remaining life of				Total
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	
Interest rate instruments					
Interest rate swaps (IRS)	-	-	3,058,015	1,373,000	4,431,015

21. Debt securities available-for-sale

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

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

PLN'000	2015	2014
As at 1 January	**14,435,099**	**17,616,041**
Increases (due to):		
Purchases	172,338,701	319,403,242
Revaluation	-	102,367
Foreign exchange differences	213,522	177,579
Depreciation of discount, premium and interest	241,808	58,522
Decreases (due to):		

PLN'000	2015	2014
Sale	(168,634,720)	(322,922,652)
Revaluation	(243,151)	-
As at 31 December	**18,351,259**	**14,435,099**

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

22. Equity investments

PLN'000	31.12.2015	31.12.2014
Shares in subsidiaries	244,530	244,588
Shares available-for-sale	76,978	19,331
Impairment	(21,562)	(23,502)
Equity investments, total	**299,946**	**240,417**
Including:		
Listed on active market instruments	755	960
Unlisted on active market instruments	299,191	239,457

The movement in equity investments is as follows:

PLN'000	Subsidiaries	Other entities	Total
As at 1 January 2015	**232,526**	**7,891**	**240,417**
Increases (due to):			
Revaluation*	-	63,323	63,323
Decreases (due to):			
Sale*	-	(3,517)	(3,517)
Revaluation	(14)	(205)	(219)
Settlement due to subsidies	(58)	-	(58)
As at 31 December 2015	**232,454**	**67,492**	**299,946**

PLN'000	Subsidiaries	Other entities	Total
As at 1 January 2014	**232,493**	**14,990**	**247,483**
Increases (due to):			
Revaluation	109	86	195
Decreases (due to):			
Sale**	-	(7,185)	(7,185)
Settlement due to payments	(76)	-	(76)
As at 31 December 2014	**232,526**	**7,891**	**240,417**

*In the 2015 the following events took place:

- there was made a positive valuation up to the fair value of shares in the Visa Europe Ltd. company as on the amount of PLN 63,323 thousand as of the 31st December 2015. That was an outcome of the acquisition transaction of Visa Europe Ltd. shares by Visa Inc. and conditions of Visa Europe Ltd shares sale transaction received by the Bank. The difference between the previous value of the share of PLN 45 and determined fair value was recognised into the other comprehensive income, additional information is contained in Note 38;
- there was a sell of shares in Polski Koncern Mięsny DUDA S.A representing 2.81% of the share in the capital and 2.81% of votes at the General Meeting.The balance value of sold shares amounted to PLN 3,517 thousand.

**In 2014 there was a sell of:

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

Financial information on subsidiaries, 31.12.2015

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	120,000	184,631	45,504	139,127	14,528	3,928
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100.00	70,950	348,412	234,009	114,403	75,938	19,453
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100.00	9,442	Entity under liquidation				
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100.00	31,041	44,397	25,764	18,633	1,792	(1,578)
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100.00	1,021	10,930	37	10,893	221	57
					232,454					

*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	120,000	184,631	45,504	139,127	14,528	3,928

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 29 February 2016, which is the entity's balance sheet date.

Financial information on subsidiaries, 31.12.2014

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	97.47	120,000	264,580	124,815	139,765	23,662	4,566
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100.00	70,950	424,698	318,187	106,511	76,093	15,340
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100.00	9,442	Entity under liquidation				
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100.00	31,055	43,644	238	43,406	640	271
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100.00	1,079	10,930	37	10,893	537	57
					232,526					

*direct share

The explanation of indirect relationships:

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

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

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

23. Amounts due from customers

PLN'000	31.12.2015	31.12.2014
Amounts due from financial sector entities		
Loans and advances	307,402	341,517
Debt securities unlisted	199,724	-
Receivables subject to securities sale and repurchase agreements	1,356,247	599,899
Guarantee funds and deposits pledged as collateral	119,047	43,912
Total gross amount	**1,982,420**	**985,328**
Impairment write-offs	(17,270)	(19,082)
Total net amount	**1,965,150**	**966,246**
Amounts due from non-financial sector entities		
Loans and advances	15,254,953	14,142,915
Unlisted debt securities	1,075,891	1,118,225
Purchased receivables	1,102,720	1,006,797
Effected guarantees	1,577	1,824
Other receivables	7,803	27,451
Total gross amount	**17,442,944**	**16,297,212**
Impairment write-offs	(560,126)	(717,556)
Total net amount	**16,882,818**	**15,579,656**
Total net amounts due from customers	**18,847,968**	**16,545,902**

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

PLN'000	31.12.2015	31.12.2014
Portfolio impairment loss	(222,876)	(351,492)
Individual impairment loss	(289,855)	(314,809)
Incurred but not reported losses (IBNR)	(64,665)	(70,337)
Impairment loss, total	**(577,396)**	**(736,638)**

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

	2015			2014		
PLN'000	Institutional customers	Retail customers	Total	Institutional customers	Retail customers	Total
As at 1 January	**(341,320)**	**(395,318)**	**(736,638)**	**(386,163)**	**(535,808)**	**(921,971)**
Increases (due to):						
Creation of write-offs	(62,299)	(110,977)	(173,276)	(94,028)	(115,753)	(209,781)
Other	(3,254)	433	(2,821)	(2,201)	-	(2,201)
Decreases (due to):						
Restating receivables into write-offs	29,567	58,338	87,905	43,830	136,264	180,094
Reversal of write-offs on receivables on made derivatives transactions	1,105	-	1,105	388	-	388
Write-offs release	61,464	91,436	152,900	94,249	118,613	212,862
Sale of receivables	1,257	92,172	93,429	-	-	-
Other	-	-	-	2,605	1,366	3,971
As at 31 December	**(313,480)**	**(263,916)**	**(577,396)**	**(341,320)**	**(395,318)**	**(736,638)**

24. Tangible fixed assets

Movements of tangible fixed assets in 2015

PLN'000	Land and buildings	Vehicles	Other	Under construction	Total
Gross amount					
As at 1 January 2015	**592,294**	**121**	**306,042**	**10,149**	**908,606**
Increases:					
Purchases	806	-	6,057	27,302	34,165
Other increases	-	-	854	-	854
Decreases:					
Disposals	-	-	(187)	-	(187)
Liquidation	(1,381)	-	(32,702)	-	(34,083)
Other decreases	-	-	(53)	-	(53)
Transfers	12,497	-	10,653	(27,994)	(4,844)
As at 31 December 2015	**604,216**	**121**	**290,664**	**9,457**	**904,458**
Depreciation					
As at 1 January 2015	**289,411**	**115**	**271,225**	**-**	**560,751**
Increases:					
Amortization change for the period	17,451	4	16,477	-	33,932
Other increases	-	-	827	-	827
Decreases:					
Disposals	-	-	(179)	-	(179)
Liquidation	(1,381)	-	(32,390)	-	(33,771)
Other decreases	-	-	(43)	-	(43)
As at 31 December 2015	**305,481**	**119**	**255,917**	**-**	**561,517**
Carrying amount					
As at 1 January 2015	302,883	6	34,817	10,149	347,855
As at 31 December 2015	**298,735**	**2**	**34,747**	**9,457**	**342,941**

Movements of tangible fixed assets in 2014

PLN'000	Land and buildings	Vehicles	Other	Under construction	Total
Gross amount					
As at 1 January 2014	**636,331**	**121**	**319,170**	**4,327**	**959,949**
Increases:					
Purchases	604	-	8,281	38,212	47,097
Other increases	-	-	1,642	-	1,642
Decreases:					
Disposals	(27,255)	-	(1,151)	-	(28,406)
Liquidation	(33,117)	-	(31,817)	-	(64,934)
Classified to tangible fixed assets available	(2,036)	-	(302)	-	(2,338)
Other decreases	-	-	(18)	-	(18)
Transfers	17,767	-	10,237	(32,390)	(4,386)
As at 31 December 2014	**592,294**	**121**	**306,042**	**10,149**	**908,606**
Depreciation					
As at 1 January 2014	**316,128**	**112**	**288,054**	**-**	**604,294**
Increases:					
Amortization charge for the period	16,559	3	14,981	-	31,543

PLN'000	Land and buildings	Vehicles	Other	Under construction	Total
Other increases	-	-	683	-	683
Decreases:					
Disposals	(11,097)	-	(1,047)	-	(12,144)
Liquidation	(31,286)	-	(31,164)	-	(62,450)
Classified to tangible fixed assets available	(893)	-	(271)	-	(1,164)
Other decreases	-	-	(11)	-	(11)
As at 31 December 2014	**289,411**	**115**	**271,225**	**-**	**560,751**
Carrying amount					
As at 1 January 2014	320,203	9	31,116	4,327	355,655
As at 31 December 2014	**302,883**	**6**	**34,817**	**10,149**	**347,855**

25. Intangible assets

Movements of intangible assets in 2015

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2015	**1,245,976**	**735**	**395,835**	**18,242**	**5,789**	**1,666,577**
Increases:						
Purchases	-	-	705	-	19,892	20,597
Decreases:						
Liquidation	-	-	(10,251)	-	-	(10,251)
Transfers	-	-	13,775	-	(15,349)	(1,574)
As at 31 December 2015	**1,245,976**	**735**	**400,064**	**18,242**	**10,332**	**1,675,349**
Depreciation						
As at 1 January 2015	**-**	**735**	**261,482**	**18,242**	**-**	**280,459**
Increases:						
Amortization charge for the period	-	-	34 153	-	-	34 153
Other increases	-	-	405	-	-	405
Decreases:						
Liquidation	-	-	(10,060)	-	-	(10,060)
As at 31 December 2015	**-**	**735**	**285,980**	**18,242**	**-**	**304,957**
Carrying amount						
As at 1 January 2015	1,245,976	-	134,353	-	5,789	1,386,118
As at 31 December 2015	**1,245,976**	**-**	**114,084**	**-**	**10,332**	**1,370,392**

Movements of intangible assets in 2014

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2014	**1,245,976**	**735**	**395,712**	**18,242**	**6,027**	**1,666,692**
Increases:						
Purchases	-	-	1,026	-	5,749	6,775
Other increases	-	-	50	-	-	50
Decreases:						
Liquidation	-	-	(6,433)	-	-	(6,433)
Transfers	-	-	5,480	-	(5,987)	(507)
As at 31 December 2014	**1,245,976**	**735**	**395,835**	**18,242**	**5,789**	**1,666,577**

PLN'000	**Goodwill**	**Patents, licenses etc.**	**Software**	**Other intangible assets**	**Prepayments**	**Total**
Depreciation						
As at 1 January 2014	**-**	**735**	**232,511**	**18,242**	**-**	**251,488**
Increases:						
Amortization charge for the period	-	-	34,775	-	-	34,775
Other increases	-	-	393	-	-	393
Decreases:						
Liquidation	-	-	(6,166)	-	-	(6,166)
Other decreases	-	-	(31)	-	-	(31)
As at 31 December2014	**-**	**735**	**261,482**	**18,242**	**-**	**280,459**
Carrying amount						
As at 1 January 2014	1,245,976	-	163,201	-	6,027	1,415,204
As at 31 December 2014	**1,245,976**	**-**	**134,353**	**-**	**5,789**	**1,386,118**

As at 31 December 2015, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise of ABN AMRO Bank (Poland) S.A. as at 1 March 2005.

26. Impairment test for goodwill

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

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

Book value of goodwill allocated to unit

PLN'000	**31.12.2015**
Institutional Bank	851,944
Consumer Bank	394,032
	1,245,976

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

The discount rate is assessed on the basis of the capital assets pricing model (CAPM) using a beta coefficient for the banking sector, a risk premium and Treasury bond yield curves. In 2015, the discount rate amounted to 9.10% (8.45% at the end of 2014).

Extrapolation of cash flows, which exceed the period covered by the financial plan, has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2015.

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

27. Deferred income tax asset

PLN'000	**31.12.2015**	**31.12.2014**
Deferred income tax asset	566,358	1,153,927
Deferred income tax liability	(404,299)	(996,112)
Deferred income tax net asset	**162,059**	**157,815**

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

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

Deferred income tax asset is attributable to the following:

PLN'000	31.12.2015	31.12.2014
Interest accrued and other expense	14,489	22,446
Revaluation impairment write-offs	36,950	60,072
Unrealized premium from securities	8,273	10,531
Derivative financial instruments negative valuation	374,063	956,628
Negative valuation of securities held-for-trading	2,892	3,866
Income collected in advance	19,122	8,579
Valuation of shares	2,545	2,916
Commissions	8,526	7,511
Debt and equity securities available-for-sale	38,424	-
Staff expenses and other cost due to pay	56,318	64,576
Other	4,756	16,802
Deferred income tax asset	**566,358**	**1,153,927**

Deferred income tax liability is attributable to the following:

PLN'000	31.12.2015	31.12.2014
Interest accrued (income)	21,375	28,531
Derivative financial instruments positive valuation	318,957	929,863
Unrealized securities discount	1,105	789
Income to receive	4,131	4,864
Positive valuation of securities held-for-trading	1,950	1,533
Debt and equity securities available-for-sale	18,602	14,371
Investment relief	13,236	14,351
Other	24,943	1,810
Deferred income tax liability	**404,299**	**996,112**
Net asset for deferred income tax	**162,059**	**157,815**

Movement in temporary differences during the year 2015

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

PLN'000	As at 1 January 2015	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2015
Interest accrued and other expense	22,446	(7,957)	-	14,489
Revaluation impairment write-offs	60,072	(23,122)	-	36,950
Unrealized premium from securities	10,531	(2,258)	-	8,273
Derivative financial instruments negative valuation	956,628	(582,565)	-	374,063
Negative valuation of securities held-for-trading	3,866	(974)	-	2,892
Income collected in advance	8,579	10,543	-	19,122
Valuation of shares	2,916	(371)	-	2,545
Commissions	7,511	1,015	-	8,526
Debt and equity securities available-for-sale	-	-	38,424	38,424
Staff expenses and other cost due to pay	64,576	(8,051)	(207)	56,318
Other	16,802	(12,046)	-	4,756
	1,153,927	**(625,786)**	**38,217**	**566,358**

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

PLN'000	As at 1 January 2015	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2015
Interest accrued (income)	28,531	(7,156)	-	21,375
Derivative financial instruments positive valuation	929,863	(610,906)	-	318,957
Unrealized securities discount	789	316	-	1,105
Income to receive	4,864	(733)	-	4,131
Positive valuation of securities held-for-trading	1,533	417	-	1,950
Debt and equity securities available-for-sale	14,371	16,574	(12,343)	18,602
Investment relief	14,351	(1,115)	-	13,236
Other	1,810	23,133	-	24,943
	996,112	**(579,470)**	**(12,343)**	**404,299**
Change in net assets for deferred income tax	**157,815**	**(46,316)**	**50,560**	**162,059**

Movement in temporary differences during the year 2014

The movement in temporary differences relating to deferred tax assets:

PLN'000	As at 1 January 2014	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2014
Interest accrued and other expense	24,332	(1,886)	-	22,446
Revaluation impairment write-offs	94,982	(34,910)	-	60,072
Unrealized premium from securities	3,445	7,086	-	10,531
Derivative financial instruments negative valuation	583,775	372,853	-	956,628
Negative valuation of securities held-for-trading	2,514	1,352	-	3,866
Income collected in advance	11,323	(2,744)	-	8,579
Valuation of shares	4,662	(1,746)	-	2,916
Commissions	9,599	(2,088)	-	7,511
Debt and equity securities available-for-sale	10,131	-	(10,131)	-
Staff expenses and other cost due to pay	74,862	(11,612)	1,326	64,576
Other	8,363	8,439	-	16,802
	827,988	**334,744**	**(8,805)**	**1,153,927**

The movement in temporary differences relating to deferred tax liability:

PLN'000	As at 1 January 2014	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2014
Interest accrued (income)	20,189	8,342	-	28,531
Derivative financial instruments positive valuation	561,273	368,590	-	929,863
Unrealized securities discount	1,332	(543)	-	789
Income to receive	6,085	(1,221)	-	4,864
Positive valuation of securities held-for-trading	1,370	163	-	1,533
Debt and equity securities available-for-sale	5,030	(3,002)	12,343	14,371
Investment relief	15,853	(1,502)	-	14,351
Other	12,821	(11,011)	-	1,810
	623,953	**359,816**	**12,343**	**996,112**
Change in net asset for deferred income tax	**204,035**	**(25,072)**	**(21,148)**	**157,815**

28. Other assets

PLN'000	31.12.2015	31.12.2014
Interbank settlements	4,357	1,128
Income to receive	66,705	47,746
Staff loans out of the Social Fund	17,628	18,746
Sundry debtors	67,064	91,288
Prepayments	6,416	8,894
Other	703	-
Other assets, total	**162,873**	**167,802**
Including financial assets*	89,752	111,162

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

29. Amounts due to banks

PLN'000	31.12.2015	31.12.2014
Current accounts	681,199	663,828
Term deposits	4,460,596	2,370,128
Loans and advances received	156,867	233,234
Liabilities due to sold securities under repurchase agreements	1,623,456	1,726,049
Other liabilities	7	10,951
Amounts due to banks, total	**6,922,125**	**5,004,190**

30. Amounts due to customers

PLN'000	31.12.2015	31.12.2014
Deposits from financial sector entities		
Current accounts	211,121	191,482
Term deposits	3,395,641	3,137,137
	3,606,762	**3,328,619**
Deposits from non-financial sector entities		
Current accounts, including:	20,149,572	19,276,096
institutional customers	10,453,867	8,589,325
individual customers	7,030,099	6,354,558
public sector units	2,665,606	4,332,213
Term deposits, including:	7,697,253	7,066,180
institutional customers	5,972,651	5,668,825
individual customers	1,665,218	1,270,001
public sector units	59,384	127,354
	27,846,825	**26,342,276**
Total deposits	**31,453,587**	**29,670,895**
Other liabilities		
Securities sold under repurchase agreements	188,505	-
Other liabilities, including:	122,257	132,650
liabilities due to deposits	99,207	78,153
Total other liabilities	**310,762**	**132,650**
Total amounts due to customers	**31,764,349**	**29,803,545**

31. Provisions

PLN'000	31.12.2015	31.12.2014
Litigation	10,522	9,571
Granted financial and guarantee commitments	10,451	13,238
Workforce restructuring	1,841	3,379
Provisions, total	**22,814**	**26,188**

The movement in provisions is as follows:

PLN'000	2015	2014
As at 1 January	**26,188**	**88,701**
Provisions for:		
Litigation	9,571	15,250
Granted financial and guarantee commitments	13,238	13,150
Workforce restructuring	-	53,267
Restructuring of branches chain	3,379	7,034
Increases:		
Charges to provisions in the period:	43,789	42,567
litigation	16,524	4,693
granted financial and guarantee commitments	25,956	31,101
restructuring of the branch network	1,309	6,773
Other increases in provisions, including:	-	1
for litigation	-	1
Decreases:		
Release of provisions in the period:	(30,369)	(46,517)
litigation	(926)	(10,373)
granted financial and guarantee commitments	(28,743)	(31,013)
workforce restructuring	-	(4,496)
restructuring of the branch network	(700)	(635)
Provisions used in the period, including:	(16,794)	(58,564)
litigation	(14,647)	-
workforce restructuring	-	(48,771)
restructuring of the branch network	(2,147)	(9,793)
As at 31 December	**22,814**	**26,188**

32. Other liabilities

PLN'000	31.12.2015	31.12.2014
Staff benefits	48,198	51,163
Interbank settlements	95,534	70,089
Settlements with Tax Office and National Insurance (ZUS)	17,435	22,786
Sundry creditors	115,229	129,745
Accruals, including:	289,693	354,191
Provision for employee payments	100,874	116,132
Provision for employee retirement payments	36,672	39,319
Provision for employee jubilee payments	-	268
IT services and bank operations support	78,841	113,000
Consultancy services and business support	21,942	26,245
Other	51,364	59,227
Deferred income	24,551	19,010
Other	-	2,963
Other liabilities, total	**590,640**	**649,947**
Including financial liabilities*	548,654	608,151

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

33. Financial assets and liabilities by contractual maturity

As at 31 December 2015

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	18	758,609	519,231	4,408	38,000	196,970	-
Financial assets held-for-trading							
Debt securities held-for-trading	19	4,692,560	163,238	-	1,822,346	1,198,152	1,508,824
Financial assets available-for-sale							
Debt securities available-for-sale	21	18,351,259	-	-	131,604	11,781,131	6,438,524
Amounts due from customers (gross)							
Amounts due from financial sector entities	23	1,982,420	1,527,285	70,135	145,000	240,000	-
Amounts due from non-financial sector entities	23	17,442,944	7,431,900	1,343,929	2,309,477	4,894,921	1,462,717
Amounts due to banks	29	6,922,125	5,986,215	750,000	28,483	157,427	-
Amounts due to customers							
Amounts due to financial sector entities	30	3,795,267	3,677,257	112,616	4,755	639	-
Amounts due to non-financial sector entities	30	27,969,082	27,190,153	519,395	247,844	11,690	-

As at 31 December 2014

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	18	2,068,494	1,508,573	216	354,470	205,235	-
Financial assets held-for-trading							
Debt securities held-for-trading	19	7,096,875	162	179,636	759,557	4,611,917	1,545,603
Financial assets available-for-sale							
Debt securities available-for-sale	21	14,435,099	4,499,750	111,492	-	6,598,749	3,225,108
Amounts due from customers (gross)							
Amounts due from financial sector entities	23	985,328	690,328	70,000	185,000	40,000	-
Amounts due from non-financial sector entities	23	16,297,212	7,639,482	1,413,513	1,466,230	4,426,423	1,351,564
Amounts due to banks	29	5,004,190	2,821,006	72,758	1,849,391	228,628	32,407
Amounts due to customers							
Amounts due to financial sector entities	30	3,328,619	3,282,080	42,988	2,912	639	-
Amounts due to non-financial sector entities	30	26,474,926	25,713,941	445,186	303,973	11,826	-

34. Capital and reserves

Share capital

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

Par value of 1 share amounts PLN 4.00

As at 31 December 2015, the Bank's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares with a nominal value of PLN 4 each, which has not changed since 31 December 2014.

The Bank has not issued preferred shares.

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

Principal shareholders

The following table presents the shareholders who, as at 31 December 2015 and 31 December 2014, held at least 5% of the total number of votes at the General Meeting or at least 5% of Bank's share capital:

	Value of shares (PLN'000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

During 2015 and during the period from the publication of the previous interim quarterly report for Q3 2015 until the day of the publication of this annual unconsolidated financial statements for 2015, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2015, supplementary capital was PLN 2,944,585 thousand (31 December 2014: 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 amount of PLN 2,485,534 thousand constituting the excess of the fair value of the issued shares over their nominal value in connection with the business combination of the Bank and Citibank (Poland) S.A., which took place on 28 February 2001.

Revaluation reserve

PLN'000	31.12.2015	31.12.2014
Revaluation of financial assets available-for-sale	**(163,809)**	**52,622**

The revaluation reserve is not distributed. As at the day of derecognition of all or part of financial assets available-for-sale from the statement of financial position, 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	31.12.2015	31.12.2014
Reserve capital	2,342,595	2,341,973
General risk reserve	521,000	521,000
Net actuarial losses on specific services program valuation	(4,770)	(5,656)
Other reserves, total	**2,858,825**	**2,857,317**

On 22 June 2015 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2014, deciding to appropriate the amount of PLN 622 thousand 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 paid for 2014

At the meeting on June 22, 2015, the Ordinary General Meeting of Shareholders of the Bank Handlowy w Warszawie S.A. (hereinafter **WZ**) adopted a resolution on distribution of the net profit for 2014. The WZ resolved to appropriate the amount of PLN 970,800,828.00 the dividend payment, which means that the dividend per one ordinary share is PLN 7.43. The number of shares covered by the dividend is 130,659,600.

Simultaneously, the WZ resolved to set the day of the right to the dividend for July 6, 2015 (day of dividend) and the day of the dividend payment for July 24, 2015 (day of the dividend payment).

Declared dividends

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

35. Repurchase and reverse repurchase agreements

Repurchase agreements

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

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

As at 31 December 2015, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities held for trading	374,878	374,869	Up to 1 week	374,901
Debt securities available-for-sale	1,460,086	1,437,092	Up to 1 week	1,437,254

** including interest*

As at 31 December 2014, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities available-for-sale	1,724,270	1,726,049	Up to 1 week	1,726,140

** including interest*

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

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

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

Reverse repurchase agreements

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

As at 31 December 2015, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	18,142	18,169	Up to 1 week	18,144
	196,965	182,177	Up to 2 years	178,886
Amounts due from customers:				
from financial sector entities	1,356,247	1,360,227	Up to 1 week	1,356,441

**including interest*

As at 31 December 2014, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	504,195	504,367	Up to 1 month	504,260
	177,446	182,760	Up to 3 years	178,886
Amounts due from customers:				
from financial sector entities	599,899	599,610	Up to 1 month	600,048

**including interest*

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

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

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

36. Offsetting of financial assets and financial liabilities

According to information in Note 2, the Bank does not offset and does not present financial assets and liabilities in net amounts. Therefore, in line with requirements of IFRS 7, disclosures provided below relate only to financial assets and liabilities resulting from derivative contracts, concluded under the master agreements such as ISDA, Master Agreement recommended by the Polish Banks' Union, and other master agreements, under which, in certain breaches of the contracts' provisions, the contract may be terminated and settled in net amount of receivables and liabilities.

The table below presents the fair values of derivatives (from trading portfolio and designated as hedging instruments) as well as collateral, which may be offset under the master agreements in certain circumstances.

PLN'000	31.12.2015		31.12.2014	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	2,172,436	2,184,726	5,476,854	5,597,147
Value of collateral received/placed	(94,442)	(220,020)	(180,008)	(359,622)
Assets and liabilities subject to offsetting under the master agreement	**2,077,994**	**1,964,706**	**5,296,846**	**5,237,525**
Maximum amount of potential offset	(1,913,847)	(1,913,847)	(5,225,136)	(5,225,136)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**164,147**	**50,859**	**71,710**	**12,389**

37. Hedge accounting

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

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

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

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

Fair value of instruments within fair value hedge accounting of securities

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

38. Fair value information

Fair value of financial assets and liabilities

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

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

As at 31 December 2015

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total carrying value	Fair value
Financial assets							
Cash and balances with Central Bank	17	-	2,170,237	-	-	2,170,237	2,170,237
Amounts due from banks	18	-	756,859	-	-	756,859	756,861
Financial assets held-for-trading	19	6,959,692	-	-	-	6,959,692	6,959,692
Hedging derivatives	20	1,795	-	-	-	1,795	1,795
Debt securities available-for-sale	21	-	-	18,351,259	-	18,351,259	18,351,259
Equity investment	22	-	-	67,492	232,454	299,946	369,769
Amounts due from customers	23	-	18,847,968	-	-	18,847,968	18,923,782
		6,961,487	**21,775,064**	**18,418,751**	**232,454**	**47,387,756**	**47,533,395**
Financial liabilities							
Amounts due to banks	29	-	-	-	6,922,125	6,922,125	6,922,089
Financial liabilities held-for-trading	19	3,247,523	-	-	-	3,247,523	3,247,523
Hedging derivatives	20	112,383	-	-	-	112,383	112,383
Amounts due to customers	30	-	-	-	31,764,349	31,764,349	31,763,549
		3,359,906	**-**	**-**	**38,686,474**	**42,046,380**	**42,045,544**

As at 31 December 2014

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total carrying value	Fair value
Financial assets							
Cash and balances with Central Bank	17	-	1,522,949	-	-	1,522,949	1,522,949
Amounts due from banks	18	-	2,065,614	-	-	2,065,614	2,065,614
Financial assets held-for-trading	19	12,721,335	-	-	-	12,721,335	12,721,335
Debt securities available-for-sale	21	-	-	14,435,099	-	14,435,099	14,435,099
Equity investments	22	-	-	7,891	232,526	240,417	304,115
Amounts due from customers	23	-	16,545,902	-	-	16,545,902	16,549,548
		12,721,335	**20,134,465**	**14,442,990**	**232,526**	**47,531,316**	**47,598,660**
Financial liabilities							
Amounts due to banks	29	-	-	-	5,004,190	5,004,190	5,002,424
Financial liabilities held-for-trading	19	6,770,922	-	-	-	6,770,922	6,770,922
Amounts due to customers	30	-	-	-	29,803,545	29,803,545	29,802,026
		6,770,922	**-**	**-**	**34,807,735**	**41,578,657**	**41,575,372**

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

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

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

In 2015, the 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 2015

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	19	4,279,794	2,679,898	-	6,959,692
derivatives		154	2,266,978	-	2,267,132
debt securities		4,279,640	412,920	-	4,692,560
Hedging derivatives	20	-	1,795	-	1,795
Debt securities available-for-sale	21	16,842,252	1,509,007	-	18,351,259
Equity investments available-for-sale	22	755	-	63,323	64,078
Financial liabilities					
Financial liabilities held-for-trading	19	988,485	2,259,038	-	3,247,523

PLN'000	Note	Level I	Level II	Level III	Total
short sale of securities		988,102	-	-	988,102
derivatives		383	2,259,038	-	2,259,421
Hedging derivatives	20	-	112,383	-	112,383

As at 31 December 2014

PLN'000	Note	Level I	Level II	Total
Financial assets				
Financial assets held-for-trading	19	6,944,306	5,777,029	12,721,335
derivatives		-	5,624,460	5,624,460
debt securities		6,944,306	152,569	7,096,875
Debt securities available-for-sale	21	8,753,310	5,681,789	14,435,099
Financial liabilities				
Financial liabilities held-for-trading	19	1,005,737	5,765,185	6,770,922
short sale of securities		1,005,545	-	1,005,545
derivatives		192	5,765,185	5,765,377

In 2015, changes of financial assets and liabilities priced up to the fair value determined using non-market parameters of importance are presented the table below:

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

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

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

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

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

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

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

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

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

In 2015 and 2014, the 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.

Equity investments

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.

For non-controlling interests, fair value is the purchase price adjusted for impairment losses for both unlisted and listed investments due to the contractual time limit of the possibility of their disposal.

According to the 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.

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

In 2014, among all equity investments, where fair value could not be established, the Bank sold:

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

Amounts due from customers and banks

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

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

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

Amounts due to banks and customers

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

As described above, the models used to determine the fair value of assets and liabilities to banks and customers, recognized in the consolidated statement of financial position at amortized cost, the use of valuation techniques based on non-market parameters. Therefore, the 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.

39. Contingent liabilities and litigation proceedings

Information on pending proceedings

In 2015, there was no single proceeding regarding the Bank's receivables or liabilities, the value of which would be equal to at least 10% of equity, pending in court, before a public administration authority or an arbitration authority.

The total value of all pending legal proceedings regarding receivables with the participation of the Bank did not exceed 10% of the Bank's equity in 2015.

In 2015, the total value of Bank's liabilities regarding legal proceedings did not exceed 10%.

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.

As at 31 December 2015, the Bank was among others a party to 17 court proceedings associated directly with derivative transactions that have not been legally terminated: in 10 proceedings the Bank acted as a defendant and in 7 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank. In 2015, in court proceedings associated with derivative transactions, where the Bank was defendant or plaintiff 8 have been legally terminated were issued 4 in favor of the Bank and in 4 cases Bank concluded a compromise.

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

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

Commitments due to granted and received financial and guarantees liabilities

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

PLN'000	31.12.2015	31.12.2014
Financial and guarantees liabilities granted		
Letters of credit	160,400	208,126
Guarantees granted	2,101,477	1,779,425
Credit lines granted	14,766,203	13,421,725
Underwriting other issuers' securities issues	1,138,000	1,264,450
Reverse repurchase transactions with future currency date	-	189,650
	18,166,080	**16,863,376**

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

The Bank makes provisions for granted financial and guarantees commitments. As at 31 December 2015, the provisions created financial and guarantees commitments amounted to PLN 10,451 thousand (31 December 2014: PLN 13,238 thousand).

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

PLN'000	31.12.2015	31.12.2014
Financial and guarantees liabilities received		
Finance	-	708,148
Guarantees	15,470,264	6,199,449
	15,470,264	**6,907,597**

40. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

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

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

PLN'000	31.12.2015	31.12.2014
Assets pledged		
Debt securities held-for-trading	186,373	-
Debt securities available-for-sale	1 943,149	2,194,933
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market transactions	286,641	381,971
Amounts due from customers		
Stock market trading guarantee funds and settlements	119,047	43,912
	2,535,210	**2,620,816**

As at 31 December 2015, the debt securities available-for-sale presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund in the amount of PLN 208,791 thousand (31 December 2014: PLN 176,088 thousand), the collateral against loan received in the amount of PLN 274,272 thousand (31 December 2014: PLN 294,575 thousand) and the collateral against securities sold with repurchase agreement in the amount PLN 1,460,086 thousand (31 December 2014: PLN 1,724,270 thousand).

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

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

For more details on assets covering the Bank's obligations under repo transactions, see Note 35.

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

41. Custodian activities

The Bank offers both custodian services connected with securities accounts for foreign institutional investors and custodian services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2015, the Bank maintained over 10.8 thousand securities accounts (31 December 2014: approx. 10 thousand accounts).

42. Operating leases

Leases where the Bank is the lessee

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

PLN'000	31.12.2015	31.12.2014
Less than 1 year	32,063	36,155
Between 1 and 5 years	65,872	81,114
More than 5 years	11,533	2,835
	109,468	**120,104**
Total annual rentals for contracts for an unspecified period of time	**2,312**	**2,379**

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

Most of the office space lease contracts are signed for 5 years with the option of extension for another three years; however, some contracts have been signed for a period up to 1 year and some for more than 10 years. Lease payments are subject to annual indexation. The total amount of lease payments in 2015 amounted to PLN 34,606 thousand (in 2014: PLN 35,542 thousand).

The car leases are signed for 4 years. Lease payments are based on fixed interest rate during all lease period. In 2015, total amount of leasing fees amounted to PLN 6,997 thousand (in 2014: PLN 6,593 thousand).

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

Leases where the Bank is the lessor

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

PLN'000	31.12.2015	31.12.2014
Less than 1 year	1,864	2,223
Between 1 and 5 years	1,926	2,416
	3,790	**4,639**
Total annual rentals for contracts for an unspecified period of time	**9,686**	**9,733**

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

Most of the office space lease contracts are signed for an unspecified period of time. Other contracts are signed for a period of between 2 and 10 year. Lease payments are subject to annual indexation. The income related to these contracts amounted in 2015 to PLN 10,109 thousand (in 2014: PLN 8,260 thousand).

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

43. Cash flow statement

Cash

PLN'000	31.12.2015	31.12.2014
Cash related items:		
Cash in hand	477,105	495,408
Nostro current account in Central Bank	1,693,132	1,027,541
Current accounts in other banks (nostro, overdrafts on loro accounts)	183,871	209,895
	2,354,108	**1,732,844**

44. Transactions with the key management personnel

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

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

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

In case of one of members of the Management Board there is an employment contract conducted with the Bank including a provision on the financial compensation in case of its termination upon notice.

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

45. Related parties

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

In the normal course of business activities, the Bank enters into transactions with related parties, in particular with entities of Citigroup Inc. and subsidiaries (see Note 22).

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

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

Transactions with subsidiaries

The receivables and liabilities towards subsidiaries are as follows:

PLN'000	31.12.2015	31.12.2014
Receivables		
Overdraft facilities	5	680
Other receivables	-	-
	5	**680**
Receivables		
Opening balance	680	29,165
Closing balance	5	680
Deposits		
Current accounts	24,235	16,076
Term deposits	262,660	245,386
	286,895	**261,462**
Deposits		
Opening balance	261,462	198,325

PLN'000	31.12.2015	31.12.2014
Closing balance	286,895	261,462
Contingent liabilities granted		
Credit lines granted	148,077	260,389

PLN'000	31.12.2015	31.12.2014
Interest and commission income	4,035	2,387
Interest and commission expenses	12,516	5,602

As at 31 December 2015 and 31 December 2014, no receivables or contingent liabilities granted to subsidiaries were subject to impairment write-offs.

Transactions with other related entities

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

PLN'000	31.12.2015	31.12.2014
Receivables, including:	150,747	194,521
Placements	-	104,914
Liabilities, including:	4,234,852	2,485,807
Deposits	3,763,867	2,042,974
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	1,337,826	4,632,733
Assets of derivative hedging instruments	1,795	-
Liabilities held-for-trading	1,307,730	4,514,920
Liabilities due to hedging derivatives	90,464	-
Contingent liabilities granted	287,814	235,286
Contingent liabilities received	103,458	869,933
Contingent transactions in derivative instruments (nominal value), including:	96,302,028	235,984,565
Interest rate instruments	79,711,721	214,744,922
FRA	12,641,270	33,970,000
Interest rate swaps (IRS)	45,355,519	155,007,205
Currency – interest rate swaps (CIRS)	20,628,005	25,394,856
Interest rate options	172,638	304,832
Futures contracts	914,289	68,029
Currency instruments	15,964,479	20,708,532
FX forward/spot	1,229,628	879,675
FX swap	10,916,585	17,254,092
Foreign exchange options	3,818,266	2,574,765
Securities transactions	184,842	288,079
Securities purchased pending delivery	93,569	89,933
Securities sold pending delivery	91,273	198,146
Commodity transactions	440,986	243,032
Swaps	406,492	209,697
Options	34,494	33,335

PLN'000	31.12.2015	31.12.2014
Interest and commission income	47,291	25,862
Interest and commission expense	61,438	10,399

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 as at 31 December 2015 amounted to PLN (58,573) thousand (as at 31 December 2014: PLN 117,813 thousand). The Bank runs a compression of derivative transaction portfolios' periodically. It is one of the risk-mitigation technique recommended by the "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on

OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulation this in particular applies to the portfolios exceeding 500 derivative transactions.

Furthermore, the 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 2015 and 2014 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.

PLN'000	2015	2014
General administrative expenses	185,013	176,487
Other operating income	12,002	14,225

In 2015 capitalization of investment regarding functionality modification of Bank's IT systems took place. Total payments for Citigroup entities amounted to PLN 11,301 thousand (in 2014: PLN 1 070 thousand).

46. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits). The costs of short-term benefits are expensed in the income statement in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Bank will record it as an accrued expense;

- benefits after termination of employment – including retirement allowances (see Note 2) and pension plans presented below offered by the Bank to its staff.

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

  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.

  Description of the 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 Legg Mason TFI S.A.

  The basic contribution paid by the employer is defined as a percentage of salary of the Plan member. The basic contribution rate amounts 7%. The additional contribution – voluntary, is paid by an employee – the Plan participant. The minimum amount of the monthly additional contribution is PLN 10,00 and the maximum amount of the additional contribution is limited to the employee's salary free from deductions within the meaning of Art. 87 of the Labour Code. The basic contribution is the Plan participant's income, from which he is obligated to pay the personal income tax (articles 12 and 13 of the Act on the income tax from individuals of 26 July 1991, Official Journal from 2000. no 90, position 416 with amendments).

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

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

- other long-term employee benefits – jubilee and other long service awards and deferred cash award. Information about jubilee awards is described in Note 2. Information on jubilee awards paid to employees is presented in Note 2. These are paid under a defined-benefit scheme and their valuation is carried out by an independent actuary in accordance with IAS 19. From 1 of January 2015 employers with long-term work-experience (10, 20, 30 etc.) are entitled to rewards in kind;

- employee equity benefits – in the form of stock options granted on Citigroup common stock,under stock award programs based on shares of Citigroup common stock in the form of deferred stock and also in the form of phantom shares of Bank Handlowy w Warszawie S.A. Valuation and presentation principles of these programs are described in Note 2 in "Share-based payments." Detailed information concerning the employee equity benefits are presented in the further part of this Note.

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

PLN'000	31.12.2015	31.12.2014
Provision for remuneration	62,126	66,927
Provision for unused leave	18,732	19,486
Provision for employees' retirement and pension allowances	36,672	39,319
Provisions for employees' jubilee payments	-	268
Provision for employees' equity compensation	20,016	29,720
	137,546	**155,720**

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

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

PLN'000	2015		2014	
	Provision for retirement and pension allowances	Provision for jubilee payments	Provision for retirement and pension allowances	Provision for jubilee payments
As at 1 January	**39,319**	**268**	**30,761**	**3,360**
Increases (due to):	3,424	-	10,008	1,649
Actuarial profit/loss of revaluation	(1,093)	-	6,982	-
Including these resulting from:				
Change of economic assumptions	(1,093)	-	3,769	-
Change of demographic assumptions	-	-	3,213	-
Salary expenses	3,382	-	1,642	1,649
Interest expenses	1,135	-	1,384	-
Decreases (due to):	(6,071)	(268)	(1,450)	(4,741)
Cost of past employment	(3,680)	-	(1,175)	-
Provisions utilisation	(2,391)	(268)	(275)	(3,871)
Reversal of provisions	-	-	-	(870)
As at 31 December	**36,672**	-	**39,319**	**268**

Analysis of sensitivity for significant actuarial assumptions

w tys. zł	2015	2014
	Provision for retirement and pension allowances	Provision for retirement and pension allowances
Central value	33,672	39,319
Decrease of growth rate to 0.5%	34,040	33,978
Increase of growth rate to 2.5%	39,582	45,880
Decrease of rotation by 10%	38,399	41,232
Increase of rotation by 10%	35,110	37,596
Decrease of discount rate by 0.5%, including:	39,553	42,405
Falling to benefits paid withing 1 year	2,702	4,025
Increase of discount rate by 0.5%, including:	34,088	36,558
Falling to benefits paid withing 1 year	2,698	4,024

More information about specific services program and their estimation is in note 2.

In 2015, the Bank's expenses in respect of premiums for the employee pension plan amounted to PLN 24,580 thousand (in 2014: PLN 21,612 thousand).

Employment at the Bank:

FTEs	2015	2014
Average employment in the year	4,095	4,300
Employment at the end of the year	3,933	4,118

Description and principles of employee stock benefit schemes

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

Within the framework of the SOP, eligible employees received options to buy stock at the NYSE closing price as at day before the award grant date. Employees acquire the right to a portion of their options on each anniversary of their SOP award grant date. Options granted in 2009 are transferred partially in 33⅓% every year for the next three years, starting from the first anniversary of option acquisition. Options granted in the previous years 2005-2008, were transferred partially in 25% every year, starting from the first anniversary of option acquisition. Employees loss the right to options at the moment of ceasing employment in Citigroup. Options may be exercised by purchase of stocks in the period from the acquisition date of the right to an option to the expiry date of the option. In the year 2015 the SOP programme was completed. All the options which had not been completed until the 29th of October, 2015 expired.

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. "Deferred shares" within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. "Deferred shares" give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. "Deferred shares" are converted into stocks after the end of a period that is determined in the Program Rules. As a general rule, the employee has his right for options revoked on the time of employment termination in the Citigroup, provided the termination of said contract „Capital Accumulation Program – Prospectus" for granted options. Deferred shares granted in 2011-2014 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

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

In 2012 Bank introduced "Variable Remuneration Components Policy For Managerial Staff At Bank Handlowy w Warszawie S.A." ("Policy"), according to requirements described in the Resolution 258/2011 of Komisja Nadzoru Finansowego (Polish Financial Supervisory Authority) dated 4-th of October 2011. According to the Policy the Management Board of the Bank and other managerial staff having a significant influence on the Bank's risk profile receive variable remuneration in relation to individual performance and Bank's financial results.

A portion of the Variable Remuneration of persons covered by the Policy will be paid in tranches during in the next 3,5 years.

Variable Remuneration – Phantom shares	
Transaction as per IFRS	Transactions share-based payments settled in cash in accordance with IFRS 2
Phantom Shares grant date	21 of January 2013
	20 of January 2014
	20 of January 2015
	18 of January 2016
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	6, 18, 30 and 42 months after grant date
Vesting date	6, 12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on Bank's results, individual performance of the employee and employment in the Group in years 2013-2016 in relation to the award from 2013, and in years 2014-2017 in relation to the award from 2014, and in years 2015-2018 in respect of reward from 2015, and in years 2016-2019 in respect of reward from 2016.
Program settlement	At the settlement date the participants will get an amount of cash being the product held by a participant phantom shares and the arithmetic mean of the lowest and highest prices of shares of the Bank notified on WSE at the vesting date. Acquisition of rights to every tranche will be

Variable Remuneration – Phantom shares	
	confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank's Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

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

Variable Remuneration – Deferred Cash Award	
Transaction as per IFRS	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	21 of January 2013 20 of January 2014 20 of January 2015 18 of January 2016
Granted amount	The amount was settled on the Deferred Cash Award grant date
Date of maturity	18, 30 and 42 months after grant date
Vesting date	12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on Bank's results, individual performance of the employee and employment in the Group in years 2013-2016 in relation to the award from 2013, and in years 2014-2017 in relation to the award from 2014, and in years 2015-2018 in relation to the award from 2015 and in years 2016-2019 in respect of reward from 2016.
Program settlement	At the settlement date the participants will get an amount of Deferred Cash tranche with an interest counted for the deferral period till the payment date. The interest rate was approved by the Resolution of the Supervisory Board in January 2013, 2014, 2015 and 2016. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank's Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

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

Assumptions of valuation of the employee equity benefit schemes

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

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

CAP Program	Grant date	Exercise price / stock price at grant date [USD]	Number of eligible employees	Number of options / shares
1	17.01.2012	30.54	19	11,968
2	19.02.2013	43.93	11	4,485
3	18.02.2014	49.66	9	6,093
4	16.02.2015	50.07	2	1,561

Phantom Shares Program	Grant Date	Exercise price / stock price at grant date [PLN]	Number of eligible employees	Number of options / shares
1	21.01.2013	96.03	23	34,105
2	20.01.2014	104.86	20	39,697
3	20.01.2015	103.98	31	57,885

	SOP Program	CAP Program	Phantom Shares Program
Period to acquire the title (in years)	33.33% after each of the following years	25% after each of the following years	40% after 0.5 of a year and 20% after each of the following years or 60% after 0.5 of a year and13.33% after each of the following years
Expected average life cycle of the instrument	1 year after the time of rights acquisition	At the time of rights acquisition	At the time of rights acquisition
Probability of premature termination of employment (annual staff turnover for awarded employees)	8.44%	8.44%	8.44%
Expected variances	23.56%	-	-
Risk free interest rate (for USD)	1.00%	-	-
Expected dividends (in USD per one share)	0.04	-	-
Fair value of one instrument* (in USD)	0.00 – 8.23 (USD)	51,75 (USD)	71.90 (PLN)

**Varies depending on the date of exercise*

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

	31.12.2015		31.12.2014	
	Number	Weighted average strike price [USD]	Number	Weighted average strike price [USD]
At the beginning of the period	70,887	40.80	89,022	45.36
Allocated in the period	-	-	-	-
Transfers	-	-	-	-
Redeemed in the period	48,695	52.86	16,039	52.66
Expired in the period	22,192	-	2,096	-
At the end of the period	-	-	70,887	40.80
Exercisable at the end of the period	-	-	70,887	40.80

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

	31.12.2015		31.12.2014	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	50,429	40.47	77,984	39.21
Allocated in the period	448	50.07	7,179	49.66
Transfers	3,250	43.89	4,336	40.20
Redeemed/expired in the period	30,020	-	39,070	-
At the end of the period	24,107	39.33	50,429	40.47

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

	31.12.2015		31.12.2014	
	Number	Weighted average share price [PLN]	Number	Weighted average share price [PLN]
At the beginning of the period	127,756	100.15	102,316	96.03
Allocated in the period	112,155	103.98	113,077	104.86
Executed in the period	108,224	91.86	87,637	109.10
Redeemed/expired In the period	-	-	-	-
At the end of the period	131,687	102.19	127,756	100.15

On 31 December 2015, the book value of liabilities from the phantom share and SOP and CAP programs amounted to PLN 29,187 thousand (31 December 2014: PLN 37,963 thousand). The costs recognized in this respect in 2015 amounted to PLN 10,215 thousand (in 2014: 14,485 thousand).

47. 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. Such risk management process is performed at different units and levels of the organization and covers among others: credit risk (including counterparty credit risk, residual risk of accepted collateral and concentration risk), liquidity risk, market risk, and operational risk.

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

- approving a strategy of the Bank's activity and the rules of prudent and stable risk management;
- approving a general level of the Bank's risk appetite as part of the internal capital adequacy assessment process (ICAAP) document;
- 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.

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

- approves the organizational structure of the Bank, which reflects the size and the profile of the risks taken and defines the roles and responsibilities in the area of risk management, ensuring that the functions of risk measurement, monitoring and control are independent from risk taking activities;
- Bank's Risk's Profile, by establishing significant risk types, simultaneously ensuring introducing processes of managing them and/or allocation of internal capital;
- The principles of prudent and stable risk management which constitute, together with ICAAP Document, the risk management strategy, including operational risk strategy;
- General acceptable risk level in Bank ("risk apetite"), in document summarizing the process of estimating and allocation of internal capital for a year.

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

- introducing a risk management system in the 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).

Processes of credit, market and operational risk management are implemented in the Bank based on written strategies and principles of risk identification, measurement, mitigation, monitoring, reporting and control approved by the Management Board or appropriately appointed Committees, including the Assets and Liabilities Management Committee (ALCO) and the Risk and Capital Management Committee.

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

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

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

Risk management in the 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 impairment-write-offs;
- support of implementation of New Capital Accord requirements.

Significant Risks

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

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. Operational Risk includes reputation and franchise risk associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk (further defined). Operational Risk does not cover strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

CREDIT RISK

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

Principles of the Credit Risk Management Policy

Risk Management unit is responsible for establishing the principles of the Credit Policy for the Corporate Bank and the Credit Policy for the Commercial Bank, as well as approving other policies and procedures, monitoring credit risk management performance, providing ongoing assessment of the credit risk of the portfolio and approving individually significant credit risk limits. The rules for approving risk are matched with the strategy of the Bank, 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 BHW 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 Committee, the Risk and Capital Management Committee and the Supervisory Board's Risk and Capital Committee;
- stress testing rules;
- monitoring of the performance of scoring models and measurement and identification of impaired exposures;
- checking the behavior of Bank customers in the Credit Information Bureau (BIK);
- collateral valuation policy for mortgage-secured credits offered by GCB.

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

Credit risk assessment and rating

The 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: cyclicality, sector, management, strategy, vulnerability to regulatory environment, transparency and quality of control processes.

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

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

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

In case of the amount of exposure, the measurements methods vary from the most simple, such as the value of the asset, to complex, such as estimating potential replacement cost on a derivative contract. The processes required for these measurements also vary considerably, from a simple feed of balances to a complex, multiple simulation engine. With reference to exposures resulting from counterparty credit risk (pre-settlement) for the purpose of risk management, the Bank uses PSE measure (Pre-Settlement Exposure) reflecting future potential exposure of the counterparty. PSE reflects maximum expected exposure of the counterparty during the life of the transaction (or transaction portfolio) at a specific confidence level, depending on market factors determining the values for particular transactions in the customer portfolio. In case of lack of sufficient data for simulation of transaction portfolio value, more simplified methods are used, which also apply to measurement of exposure for internal capital purposes.

For retail credit exposures, the 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 as well as customer demographics. The quality of performance of scoring models is reviewed on an ongoing basis and monitored annually. As a result, modifications are made in the model or the credit policy.

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

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

Credit risk monitoring

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

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

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

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

In addition to various management information reports analysis, risk managers and business representatives conduct regular round tables regarding the portfolio in order to review business pipelines and discuss the credit issues.

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

Risk mitigation

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

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

Policy of collateral acceptance

Apart from general rules of credit risk mitigation, the Bank has defined specific Corporate and Consumer rules of accepting, assessing, establishing and monitoring various types of collateral, including guarantees and similar forms of support (jointly: "collateral"). These rules serve to minimize the residual risk associated with collateral.

As an additional element limiting this risk, in financing of companies and individuals who pursue business activity, revenues from the customer's ongoing business are the key element of creditworthiness assessment of potential borrowers and the primary source of repayment of debt to the 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;
- relationship of loan value to collateral value for each type of collateral;
- desirable structure of the different types of collateral in the credit portfolio.

The 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.

As at 31 December 2015, the financial effect of receivables recovered from collateral for receivables from customers with recognized impairment based on individual measurement in the Bank amounted to PLN 31,036 thousand (31 December 2014: PLN 41,775 thousand). This is how much higher the required impairment write-offs of the portfolio would be if the estimation of the write-offs did not include cash flows from such collateral.

Concentration of exposure

The Bank sets limits and manages exposures so as to ensure adequate risk diversification in the portfolio. In its credit risk management, the Bank defines exposure concentration limits related to the maximum exposure (as per internal reporting):

- against one obligor or a group of multiple obligors with common ownership and/or organization;
- against particular industries (based on the Bank's internal classification);
- in a specific foreign currency;
- resulting from transactions generating counterparty credit risk (pre-settlement);
- against the group of the Bank's parent entity;
- against mortgage-secured exposures;
- against retail credit exposures of the Consumer Bank Risk Division.

The first two concentrations (against obligors and industries), regarding in particular Corporate and Commercial Bank portfolios, are considered the most significant from the concentration risk management point of view in the Bank.

At portfolio level, concentration limits are approved and monitored on Bank level 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. All excesses of the limits are reported for approval by competent persons or the Risk and Capital Management Committee.

In the obligor exposure management process, the Bank also monitors the limits defined by the Banking Act and other supervisory resolutions to ensure compliance, including an additional capital requirement determined for these exposures when needed.

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

In addition to current concentration levels monitoring in accordance to set limits; Bank monitors also potential geographical concentration and concentration resulting from indirect commitments – however in accordance to Bank's portfolio profile there were no limits set for this type of concentration.

Obligor exposure concentration risk

The 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 2015, 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 6,199,373 thousand, i.e., 131% of equity (31 December 2014: PLN 5,733,506 thousand, i.e., 118%). In 2015 and 2014 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	31.12.2015			31.12.2014		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
CLIENT 1	360,285	700,722	1,061,007	85,160	916,365	1,001,525
GROUP 2	120,987	791,637	912,624	2	756,906	756,908
CLIENT 3	500,000	250,000	750,000	575,100	341,450	916,550
CLIENT 4	700,000	-	700,000	550,000	-	550,000
GROUP 5	125,146	502,862	628,008	184,949	442,417	627,366
GROUP 6	3	601,358	601,361	1	203,730	203,731
GROUP 7	447,882	84,545	532,427	660,806	107,837	768,643
GROUP 8	419,442	94,426	513,868	93,464	44,768	138,232
CLIENT 9	-	500,078	500,078	-	500,051	500,051
CLIENT 10	450,000	-	450,000	463,200	-	463,200
GROUP 11	-	-	-	467,864	144,599	612,463
GROUP 12	-	-	-	220,486	176,527	397,013
Total	**3,123,745**	**3,525,628**	**6,649,373**	**3,301,032**	**3,634,650**	**6,935,682**

**Excluding investment in shares and other securities*

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

As at 31 December 2015, the Bank had an exposure to one entity exceeding the statutory exposure concentration limits. The excess exposure resulted from trade portfolio transactions. As a consequence, an additional capital requirement for excess exposure was factored into the calculation of the Bank's total capital requirement as at 31 December 2015.

*Concentration of exposure in individual industries**

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

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2015		31.12.2014	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,416,137	17.7%	3,806,391	16.6%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,661,946	10.7%	2,191,652	9.5%
Financial intermediation, excluding insurance and pension funds	1,939,633	7.8%	2,409,151	10.5%
Retail trade, excluding retail trade in vehicles	1,413,278	5.7%	1,561,013	6.8%
Production of food and beverages	1,290,045	5.2%	1,376,794	6.0%
Metal ore mining	1,061,007	4.3%	1,001,440	4.4%
Production and processing of coke and petroleum products	848,866	3.4%	831,430	3.6%
Manufacture of electric appliances	842,923	3.4%	393,911	1.7%
Production of metal goods, excluding machines and equipment	689,814	2.8%	565,328	2.5%

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	31.12.2015		31.12.2014	
Public administration and national defense obligatory social security	640,294	2.6%	624,132	2.7%
10 business sectors	**15,803,943**	**63.4%**	**14,761,242**	**64.3%**
Other sectors	**9,134,984**	**36.6%**	**8,210,977**	**35.7%**
Total	**24,938,927**	**100.0%**	**22,972,219**	**100.0%**

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks).*

Gross amounts due from customers and banks by type of business

PLN'000		31.12.2015	31.12.2014
Gross amounts due from economic entities and banks			
Financial		2,644,292	3,323,511
Production		4,303,842	4,219,223
Services		987,523	768,663
Other		5,811,926	4,759,600
		13,747,583	**13,070,997**
Gross amounts due from individual customers		**6,436,390**	**6,280,037**
	(see Note 18, 23)	**20,183,973**	**19,351,034**

Management of impaired exposures

The active process of portfolio quality management includes both assigning appropriate risk ratings and classification to facilities as well as the application of remedial and debt collection actions. The Bank has put in place a uniform internal system for classification of receivables against predetermined criteria.

Credit exposures with identified impairment are divided into two categories. There is portfolio of exposures managed on the basis of individual classification (classifiable portfolio) and a portfolio of exposures managed on the basis of days of delinquency (delinquency managed portfolio). Eligibility for either portfolio depends on the amount of aggregate exposure to the customer and the exposure management process applied.

Irrespective of delinquency days, impaired exposures include exposures for which the Bank has accepted a facilitation of payment (restructuring of debt), which it would otherwise not consider, due to economic or legal reasons relating to the financial difficulty of the customer, where the Bank does not receive an adequate compensation. Adequate compensation is understood as additional income earned, as a result of which the present value of cash flows is not lower than the carrying value before restructuring.

For customers in the classifiable portfolio, loans are treated as impaired when there is objective evidence of credit exposure impairment which may be a result of the following:

- Significant financial difficulty of the obligor;
- Breach of contract, such as default or delinquency in interest or principal payments;
- Granting the borrower a concession, which the lender would not otherwise consider, due to economic or legal reasons relating to the borrower's financial difficulty;
- High probability of customer bankruptcy or information on opened bankruptcy proceedings;
- National or local economic conditions that may be correlated with default of exposure;
- Payment overdue for more than 60 days;
- Significant deterioration of the customer's rating;
- Bank's petition for an enforcement procedure to be opened against the customer;
- Downgrade of the counterparty's rating by a recognized external credit rating institution accepted by the Bank.

For customers in the delinquency managed portfolio, loans are considered impaired as soon as a specified benchmark of days past due is met.

Risk Management regularly evaluates the adequacy of the established write-offs for impaired loans.

Customers in the classifiable portfolio (individual assessment)

Impairment is determined by estimating the exposure loss, case by case, and the following factors are considered:

- Aggregate exposure to the customer;

- The viability of the customer's business model and the capacity to successfully work out their financial difficulties;
- Generating sufficient cash flows to service debt obligations;
- The amount and timing of expected payments;
- The probability of meeting granted contingent commitments;
- The realizable value of collateral and the probability of successful repossession (considering all legal risks and hedge maintenance costs until disposal);
- The expected receipts due to enforcement, bankruptcy and liquidation;
- Estimation of possible expenses concerned in recovering outstanding amounts;
- Where appropriate, the market price of debt.

The Bank's policy requires the level of impairment write-offs on classifiable exposures that are above materiality thresholds to be reviewed at least quarterly. The review covers collateral held and an assessment of actual and anticipated payments.

Customers in the delinquency managed portfolio (portfolio assessment)

For exposures that are not considered individually significant, impairment is calculated on a portfolio basis, essentially when a specified benchmark of days past due is met. A formulaic approach is used which allocates progressively higher percentage loss rates the longer a customer's loan is overdue.

The tables below present the Bank's portfolio grouped by receivables from customers with established impairment and receivables without impairment. The tables also present the details of impairment write-offs. Impaired receivables are divided into the 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.

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

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

The main criterion of impairment for GCB customers is a delay in payment of the principal amount and interest, a minimum payable balance, a commission, or an exceeded balance limit. For purposes of impairment, it is assumed that the criterion is met when a payment is overdue for at least 90 days at the impairment assessment date.

Additional criteria of impairment include:

- death, permanent disability or serious illness;
- fraud;
- information about initiated bankruptcy proceedings of the customer or bankruptcy declared by the customer;
- impairment or risk of impairment of collateral;
- detention or imprisonment of the customer;
- partial cancellation of the principal amount;
- termination of contract;
- petition of the Bank for an enforcement procedure to be opened against the customer.

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

PLN'000	Note	**31.12.2015**	**31.12.2014**
Receivables due from Central Bank	17	1,693,132	1,027,541
Gross receivables due from banks	18	758,609	2,068,494
Gross receivables due from institutional customers	23	12,988,974	11,002,503
Gross receivables due from individual customers	23	6,436,390	6,280,037
Debt securitites held-for-trading	19	4,692,560	7,096,875
Derivative instuments	19	2,267,132	5,624,460
Hedging derivates	20	1,795	-
Debt securities available-for-sale	21	18,351,259	14,435,099
Other financial assets	28	89,752	111,162
Contingent liabilities granted	39	18,166,080	16,863,376
		65,445,683	**64,509,547**

PLN'000	31.12.2015 Amounts due from institutional customers	31.12.2015 Amounts due from individual customers	31.12.2015 Amounts due from banks	31.12.2014 Amounts due from institutional customers	31.12.2014 Amounts due from individual customers	31.12.2014 Amounts due from banks
Impaired receivables						
Individual receivables						
Gross amount	**327,772**	**11,349**	**-**	**366,804**	**10,822**	**-**
Impairment write-off	284,332	5,523	-	311,113	3,696	-
Net amount	**43,440**	**5,826**	**-**	**55,691**	**7,126**	**-**
Portfolio receivables						
Gross amount	**22,634**	**327,216**	**-**	**20,875**	**471,158**	**-**
Impairment write-off	9,973	212,903	-	9,187	342,305	-
Net amount	**12,661**	**114,313**	**-**	**11,688**	**128,853**	**-**
Not impaired receivables						
by risk rating						
Risk rating 1-4-	9,545,252	-	591,134	7,570,152	-	1,877,370
Risk rating+ 5-6-	2,886,053	-	167,475	2,810,538	-	191,124
Risk rating+7and greater	207,263	-	-	234,134	-	-
by delinquency						
no delinquency	-	5,847,281	-	-	5,546,106	-
1–30 days	-	202,475	-	-	198,755	-
31–90 days	-	48,069	-	-	53,196	-
Gross amount	**12,638,568**	**6,097,825**	**758,609**	**10,614,824**	**5,798,057**	**2,068,494**
Impairment	19,175	45,490	1,750	21,020	49,317	2,880
Net amount	**12,619,393**	**6,052,335**	**756,859**	**10,593,804**	**5,748,740**	**2,065,614**
Total net amount	**12,675,494**	**6,172,474**	**756,859**	**10,661,183**	**5,884,719**	**2,065,614**

PLN'000	31.12.2015 Amounts due from institutional customers	31.12.2015 Amounts due from individual customers	31.12.2015 Amounts due from banks	31.12.2014 Amounts due from institutional customers	31.12.2014 Amounts due from individual customers	31.12.2014 Amounts due from banks
Impairment write-offs for impaired receivables						
Impairment write-offs for individual receivables	**284,332**	**5,523**	**-**	**311,113**	**3,696**	-
Impairment write-offs for portfolio receivables	**9,973**	**212,903**	**-**	**9,187**	**342,305**	-
IBNR provisions						
by risk rating						
Risk rating 1-4-	2,695	-	131	2,209	-	347
Risk rating+5-6-	9,840	-	1,619	9,787	-	2,533
Risk rating +7 and greater	6,640	-	-	9,024	-	-
by delinquency						
no delinquency	-	16,993	-	-	18,545	-
1–30 days	-	11,083	-	-	12,245	-
31–90 days	-	17,414	-	-	18,527	-
	19,175	**45,490**	**1,750**	**21,020**	**49,317**	**2,880**
Total impairment write-offs	**313,480**	**263,916**	**1,750**	**341,320**	**395,318**	**2,880**

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

PLN'000	31.12.2015	31.12.2014
Receivables due from individual customers not impaired and without delay in payment, including:	**5,847,280**	**5,546,106**
receivables at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days)	344,435	288,910
receivables at least once have exceeded 90 days of delay in payment	5,824	6,694

Receivables not impaired by delinquency:

PLN'000	31.12.2015			31.12.2014		
	Amounts due from institutional customers	Amounts due from individual customers	Amounts due from banks	Amounts due from institutional customers	Amounts due from individual customers	Amounts due from banks
Receivables with incurred but not recognized (IBNR) losses						
Regular receivables	12,601,969	5,847,280	758,609	10,606,037	5,546,106	2,068,494
Overdue receivables, including:	36,599	250,545	-	8,787	251,951	-
1-30 days	35,026	202,475	-	4,353	198,755	-
Gross amount	**12,638,568**	**6,097,825**	**758,609**	**10,614,824**	**5,798,057**	**2,068,494**

Structure of derivatives in terms of credit risk

PLN'000	31.12.2015			31.12.2014		
	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-	157,940	2,176	2,071,473	108,828	2,287	5,462,463
Risk rating+5-6-	14,696	-	21,581	25,521	-	22,906
Risk rating +7 and greater	1,061	-	-	2,451	-	3
Total	**173,697**	**2,176**	**2,093,054**	**136,800**	**2,287**	**5,485,372**

The classification of exposures in the portfolio of debt securities held for trading and portfolio of debt securities available for sale by ratings agency Fitch is presented below:

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

Other financial assets in the amount of PLN 89,752 thousand at the end of 2015 (PLN 111,162 thousand at the end of 2014) include receivables with delinquency over 90 days in the amount of PLN 1,824 thousand (PLN 1,278 thousand at the end of 2014).

Structure of granted contingent liabilities in terms of credit risk:

PLN'000	31.12.2015		31.12.2014	
	Liabilities due to institutional customers	Liabilities due to banks	Liabilities due to institutional customers	Liabilities due to banks
Granted contingent liabilities by risk rating				
Risk rating 1-4-	9,882,610	260,594	9,129,301	360,793
Risk rating+5-6-	2,342,319	5,531	1,977,844	41,370
Risk rating +7and greater	117,362	-	110,261	-
Total	**12,342,291**	**266,125**	**11,217,406**	**402,163**

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

PLN'000	31.12.2015	31.12.2014
Granted contingent liabilities due to individual customers, including:	**5,557,664**	**5,243,807**
contingent liabilities at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days)	307,782	264,365
contingent liabilities at least once have exceeded 90 days of delay in payment	1,748	1,571

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

PLN'000	31.12.2015	31.12.2014
Gross amount		
Receivables with recognized impairment, including:	688,971	869,659
Individual receivables	339,121	377,626
Portfolio receivables	349,850	492,033
Receivables without recognized impairment	19,495,002	18,481,375
Total gross amount	**20,183,973**	**19,351,034**
Impairment write-offs		
Receivables with recognized impairment, including:	512,731	666,301
Individual receivables	289,855	314,809
Portfolio receivables	222,876	351,492
Receivables without recognized impairment	66,415	73,217
Impairment write-offs in total	**579,146**	**739,518**
Net amount		
Receivables with recognized impairment, including:	176,238	203,358
Individual receivables	49,265	62,817
Portfolio receivables	126,973	140,541
Receivables without recognized impairment	19,428,589	18,408,158
Total net amount	**19,604,827**	**18,611,516**
Ratio of impairment write-offs to receivables with recognized impairment	**74.4%**	**76.6%**

"Forbearance" practices

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

Bank considers exposures as "forborne" that are in the process of troubled debt restructuring. This is a situation when the debtor is experiencing financial difficulties and BHW grants preferential financing conditions to the debtor that it would not otherwise consider (i.e., off-market terms).
Preferential financing conditions are considered situations in which for example the yield of the modified facility is lower than the contractual yield prior to the restructuring and/or the yield on the modified loan is below a market yield for the relevant tenor and credit risk.

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

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

The process of assigning "forborne" status for exposures is closely related to the credit risk management process, including the impairment recognition process for exposures. According to the implemented process of impairment recognition, exposure status change to "forborne" constitutes an evidence of impairment and such exposure is in the portfolio of impaired loans.

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

The "forborne" exposures are serviced by a specialized unit where the documented processes to ensure the correct identification ("forborne" exposures are indicated in the Bank accounting system), accounting, valuation, reporting and monitoring of these exposures are in place. Exposure values in "forborne" status are insignificant, that is why Bank monitors them at total level, without further portfolio splits.

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	31.12.2015	31.12.2014
Receivables without recognized impairment, including	18,736,393	16,412,879
non-financial sector entities	16,771,109	15,446,547
Institutional customers	10,673,284	9,648,489
Individual customers	6,097,825	5,798,058
Receivables with recognized impairment, including:	688,971	869,661
non-financial sector entities	671,835	850,665
Institutional customers, including:	333,270	368,685
„forborne"	74,991	63,529
Individual customers, including:	338,565	481,980
„forborne"	31,979	61,722
Total gross amount, including:	**19,425,364**	**17,282,540**
non-financial sector entities	17,442,944	16,297,212
Institutional customers, including:	11,006,554	10,017,174
„forborne"	74,991	63,529
Individual customers, including:	6,436,390	6,280,038
„forborne"	31,979	61,722
Impairment write-off	**(577,396)**	**(736,638)**
On „forborne" receivables	(62,073)	(76,273)
Total net amounts due from customers, including:	**18,847,968**	**16,545,902**
„forborne" receivables	44,897	48,978

"Forborne" exposures by period of overdue as at 31 December 2014

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

LIQUIDITY RISK

The processes and organization of liquidity risk management

Liquidity risk is defined as the risk that the 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 liquidity necessary to clear all money market transactions when due.

Liquidity risk management is based on:

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

taking into account best market practice.

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

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

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.

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

Long-term liquidity management is the responsibility of ALCO and as such it is reflected in the 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 process of the Annual Funding and Liquidity Plan defining the size of internal limits taking into account the business plans for assets and liabilities changes prepared by business units of the 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 Treasury Division 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 Treasury Division 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 facilitates.

Funding and Liquidity Plan

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

Liquidity risk management tools

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

Internal liquidity risk management tools

In addition to the regulatory liquidity measures, the Bank applies a range of liquidity risk management tools including:
- Gap analysis – Market Access Report (MAR);
- Stress scenarios;
- Liquidity ratios;
- Market Triggers;
- Significant Funding Sources;
- Contingency Funding Plan.

Stress scenarios

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

The 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

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

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

The levels of the cumulative liquidity gap and the level of liquid assets as at 31 December 2015 according to S2 method and 31 December 2014 according to previous method based on the study of the availability of funding in the wholesale market (MAR) are presented below.

The cumulative liquidity gap as at 31 December 2015 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	20,717,611	313,024	410,630	196,967	27,804,068
Liabilities and equity	12,603,674	2,682,201	46,072	59,609	34,050,744
Balance sheet gap in the period	8,113,937	(2,369,177)	364,558	137,358	(6,246,676)
Contingent derivatives transactions – inflows	17,752,619	6,507,815	8,138,631	4,750,096	10,799,649
Contingent derivatives transactions – outflows	17,618,109	6,565,980	8,125,367	4,761,800	10,976,369
Off-balance-sheet gap in the period	134,510	(58,165)	13,264	(11,704)	(176,720)
Cumulative gap	8,248,447	5,821,105	6,198,927	6,324,581	(98,815)

The cumulative liquidity gap as at 31 December 2014 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	1,785,270	-	-	-	47,818,107
Liabilities and equity	8,446,916	137,026	1,853,836	58,921	39,106,678
Balance sheet gap in the period	(6,661,646)	(137,026)	(1,853,836)	(58,921)	8,711,429
Contingent derivatives transactions –	15,659,087	3,803,944	11,738,178	9,589,527	11,602,589

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
inflows					
Contingent derivative transactions – outflows	16,115,268	3,987,651	11,488,710	9,730,060	11,421,057
Off-balance-sheet gap in the period	(456,181)	(183,707)	249,468	(140,533)	181,532
Cumulative gap	(7,117,827)	(7,438,560)	(9,042,928)	(9,242,382)	(349,421)

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

PLN'000	31.12.2015	31.12.2014	Change
Liquid assets, including:	24,951,511	22,752,411	2,199,100
nostro account in NBP and stable part of cash	1,907,692	1,220,437	687,255
debt securities held-for-trading	4,692,560	7,096,875	(2,404,315)
debt securities available-for-sale	18,351,259	14,435,099	3,916,160
Cumulative liquidity gap up to 1 year	6,198,927	(9,042,928)	na
Coverage of the gap with liquid assets	Positive gap	252%	na

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 2015

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	29	6,922,128	5,986,218	750,000	28,483	157,427	-
Financial liabilities held-for-trading							
Short positions in financial assets	19	988,102	988,102	-	-	-	-
Amounts due to customers, including:	30	**31,764,361**	**30,867,422**	**632,011**	**252,599**	**12,329**	**-**
Deposits from financial sector entities	30	3,606,762	3,488,752	112,616	4,755	639	-
Deposits from non-financial sector entities	30	27,846,825	27,143,609	483,580	208,016	11,620	-
Other liabilities	30	310,774	235,061	35,815	39,828	70	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	1,797,159	63,520	102,212	208,112	955,916	467,399
Hedging derivatives	20	112,383	-	-	-	53,684	58,699
Unused credit lines liabilities	39	14,766,203	12,420,368	175,606	376,411	1,089,615	704,203
Guarantee lines	39	2,101,477	2,101,477	-	-	-	-
		58,451,813	**52,427,107**	**1,659,829**	**865,605**	**2,268,971**	**1,230,301**
Derivatives settled on a gross basis							
Inflows		47,262,699	17,657,248	6,433,442	8,035,146	10,778,834	4,358,029
Outflows		47,181,855	17,544,078	6,418,020	8,076,504	10,768,844	4,374,409
		80,844	**113,170**	**15,422**	**(41,358)**	**9,990**	**(16,380)**

As at 31 December 2014

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	29	5,004,196	2,821,012	72,758	1,849,391	228,628	32,407
Financial liabilities held-for-trading							
Short positions in financial assets	19	1,005,545	1,005,545	-	-	-	-
Amounts due to customers, including:	30	**29,803,547**	**28,996,023**	**488,174**	**306,885**	**12,465**	**-**
Deposits from financial sector entities	30	3,328,620	3,282,081	42,988	2,912	639	-
Deposits from non-financial sector entities	30	26,342,276	25,631,325	429,838	269,667	11,446	-
Other liabilities	30	132,651	82,617	15,348	34,306	380	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	5,021,507	60,576	105,369	451,135	2,929,929	1,474,498

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
Unused credit lines liabilities	39	13,421,725	12,018,056	76,320	141,646	974,907	210,796
Guarantee lines	39	1,779,425	1,779,425	-	-	-	-
		56,035,945	**46,680,637**	**742,621**	**2,749,057**	**4,145,929**	**1,717,701**
Derivatives settled on a gross basis							
Inflows		51,920,356	16,351,513	3,801,719	11,574,861	15,281,939	4,910,324
Outflows		52,075,612	16,415,101	3,848,204	11,598,305	15,287,830	4,926,172
		(155,256)	**(63,588)**	**(46,485)**	**(23,444)**	**(5,891)**	**(15,848)**

MARKET RISK

The processes and organization of market risk management

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

The objective of market risk management is to ensure that the extent of risk accepted within the 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.

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

taking into account best market practice.

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

- Member of the Management Board of the Bank – Head of the Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit;
- Heads of risk-taking business units;
- Persons delegated to risk management in 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 change in market parameters over a short period. The trading portfolios include balance-sheet items such as debt securities held-for-trading, i.e., debt securities acquired to be further traded and meeting pre-defined liquidity criteria, as well as all derivative instrument positions broken down into portfolios acquired purely for trading and transactions executed in order to provide an economic hedge of bank portfolio positions. The trading portfolios are valued directly at market prices or using market pricing-based valuation models. The trading portfolio operations are performed by the Bank's Treasury Division in respect of interest rate risk portfolios and FX risk portfolios. The trading portfolio also includes options, manly foreign exchange options and interest rate options and optional structures being reflection of economic nature and risk resulting from products offerted to customers of the Bank. In this area, the Bank concludes transactions in a way which ensures concurrent (at each time and immediate) conclusion of an opposite transaction with the same parameters and, in consequence, the option portfolio does not generate open exposition of market risk. The only item related to the conclusion of option transactions which is reflected in market risk measurement, and in particular in foreign exchange risk, is the premium paid/received in a foreign currency.

The bank portfolios include all other balance-sheet and off-balance-sheet positions not assigned to any of the trading portfolios. The transactions are executed to realize a profit over the entire contracted transaction period. The Bank's Treasury Division takes over the interest rate risk positions held in the bank portfolios of all other organizational units of the 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 Treasury Division for the purpose of management of interest rate risk and liquidity risk (Treasury Division's own portfolio) are always classified into appropriate revaluation bands in accordance with the contracted dates.

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

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

The table below presents the IRE measures for the Bank as at 31 December 2015 and 31 December 2014. The list has been broken down into the main currencies, i.e., PLN, USD and EUR, which jointly account for over 90% of the Bank's balance-sheet.

PLN'000	31.12.2015		31.12.2014	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	29,013	65,798	50,835	148,535
USD	(14,093)	(70,011)	2,173	(16,162)
EUR	14,009	18,329	19,494	(1,274)

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 Bureau within the Treasury Division. Three basic goals of activities in the portfolio of securities available-for-sale have been defined as follows:

- management of the Bank's liquidity;
- hedging against the risk transferred to the Treasury Division from other organizational units of the Bank;
- opening of own interest rate risk positions on the Bank's books by the Treasury Division.

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

Hedge accounting program

In addition to the general rules limiting market risk, in particular, interest rate risk, the 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 available for sale (AFS) 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 available for sale at a fixed interest rate, denominated in PLN and EUR. In all cases, the hedging instrument was the interest rate swap (IRS), which converts the fixed interest rate on a variable. Gains and losses arising from revaluation at fair value of the hedging instrument and changes in the fair value of the hedged items are reflected - in part resulting from the hedged risk - in profit and loss item "Net income from hedge accounting."

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

PLN'000	31.12.2015			31.12.2014			Total in the period 01.01.2015 – 31.12.2015		
	Total	Securities	IRS	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(2,730)	(4,123)	1,393	(2,434)	(2,434)	-	(2,007)	(531)	(3,783)
USD	(933)	(1,365)	432	(447)	(447)	-	(524)	(25)	(1,455)
EUR	(208)	(208)	-	(556)	(556)	-	(191)	(89)	(562)

The 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 2015 are presented in the table below:

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

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

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

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

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

Equity instruments risk

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:

31.12.2015

PLN'000	Balance-sheet transactions		Contingent derivatives transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,075,673	4,200,815	16,721,542	15,477,990	118,410
USD	5,456,066	3,469,607	9,206,843	11,198,528	(5,226)
GBP	28,906	380,021	437,048	46,580	39,353
CHF	310,131	123,080	656,060	845,258	(2,147)

PLN'000	Balance-sheet transactions		Contingent derivatives transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
Other currencies	106,760	251,291	2,970,751	2,839,821	(13,601)
	8,977,536	**8,424,814**	**29,992,244**	**30,408,177**	**136,789**

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

31.12.2014

PLN'000	Balance-sheet transactions		Contingent derivatives transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,832,126	5,939,918	8,849,494	6,632,396	109,306
USD	2,571,280	2,093,987	2,660,851	3,188,933	(50,789)
GBP	130,358	155,196	28,289	3,907	(456)
CHF	664,552	86,630	22,648	599,256	1,314
Other currencies	1,082,476	71,961	1,002,056	2,014,879	(2,308)
	8,280,792	**8,347,692**	**12,563,338**	**12,439,371**	**57,067**

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

OPERATIONAL RISK

Assumptions of operational risk system

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

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

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

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

Operational risk definition

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. Operational Risk includes reputation and franchise risk associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk (further defined). Operational Risk does not cover strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

Definition of Operational Risk covers: Technological and technical risk, Outsourcing risk, Misappropriation risk, Money Laundering risk, Information Security risk, External Events risk (Continuity of Business), Tax and Accounting risk, Product risk, Compliance risk, Legal risk, Models risk, and Staffing risk.

Rules of operational risk identification

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

Operational Risk Profile

Operational Risk Profile – scale and structure of exposure to operational risk, defining the level of exposure to operational risk, expressed in selected 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). Bank defines operational risk profile based on operational loss data and based on information gathered through utilized operational risk management tools.

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

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

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

Measurement and assessment

The Bank manages the operating risk using a variety of tools and techniques including the policies, procedures, checklists, approving processes, independent controls, monitoring of trends and limits, self-assessment process, key risk indicators, information security control tools, contingency plans, insurance, and audits.

Risk tolerance framework, risk control and mitigation

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

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

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

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

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

Monitoring and reporting

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

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

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

Based on synthetic reports, presented periodically by the Management Board at least once a year, prepared based on data resulting from operational risk monitoring, covering scale and types of operational risk the 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 Management Board, one of its members – Risk Management Sector Head - supervises Independent Control and Operational Risk Department.

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

Each Business Unit must establish an appropriate system of controls that are commensurate with the level of operational risk and other risks being managed, including proper documentation of the control procedures and appropriate staff training. Each Business Unit must evaluate the risks that are unacceptable or outside of the Business Unit's risk appetite/tolerance and determine the appropriate actions for their mitigation or transfer.

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

Additionally, periodic assessment of adequacy and effectiveness of controls (Manager's Control Assessment), covers monitoring and testing of the adequacy and effectiveness of the Key Controls, at a frequency commensurate with the underlying risk and frequency of the control, and independent review by internal audit. In case of identification of deficiency or an area of unacceptable risk, the management of the Business Unit is responsible for formulating a corrective action plan to resolve these deficiencies. Completion of corrective actions falls under independent monitoring and control.

Audit Department (IA-Internal Audit) is responsible for independent assessment of effectiveness of operational risk management processes and assessment of adequacy and effectiveness of operational risk management system, as well as for its regular reviews.

Results of internal and external audits are considered in the management information system, the process of decision taking with regard to risk management and management of the Bank.

EQUITY MANAGEMENT

According to the Banking Act, banks in Poland are obliged to maintain equity at a level adequate for their specific business risks.

The Bank's equity amounted to PLN 6,782,466 thousand as at 31 December 2015 (as at 31 December 2014: PLN 7,348,585 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 4,719,986 thousand (as at 31 December 2014: PLN 4,860,152 thousand) Such capital level is considered sufficient for conducting business activity. The capital level is regularly monitored by using the capital adequacy ratio.

In 2008, the 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		31.12.2015	31.12.2014
I	**Common Equity Tier 1 Capital**	**4,719,986**	**4,860,152**
II	**Total capital requirements, including:**	**2,252,301**	**2,254,224**
	credit risk capital requirements	1,706,398	1,586,165
	counterparty risk capital requirements	78,682	87,247
	Credit valuation correction capital requrements	34,059	54,648
	excess concentration and large exposures risks capital requirements	17,542	66,774
	total market risk capital requirements	84,287	108,166
	operational risk capital requirements	331,333	341,347
	other capital requirements	-	9,877
	Common Equity Tier 1 Capital ratio	**16.8%**	**17.2%**

**Capital Adequacy Ratio was calculated according to the rules stated in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.*

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

48. Subsequent events

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

Signatures of Management Board Members

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