



BANK HANDLOWY W WARSZAWIE S.A.
2016 ANNUAL REPORT

MARCH 2017

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2016	2015	2016	2015
Interest income	1,257,019	1,227,976	287,273	293,437
Fee and commission income	591,196	655,465	135,109	156,630
Profit before tax	763,820	780,041	174,559	186,399
Net profit	604,199	620,227	138,081	148,209
Total comprehensive income	552,947	404,682	126,368	96,703
Increase/decrease of net cash	(1,681,354)	621,264	(384,248)	148,457
Total assets	45,091,648	49,442,300	10,192,506	11,602,088
Amounts due to banks	2,303,627	6,922,125	520,711	1,624,340
Amounts due to customers	34,031,947	31,764,349	7,692,574	7,453,795
Shareholders' equity	6,723,926	6,782,466	1,519,875	1,591,568
Share capital	522,638	522,638	118,137	122,642
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	51.46	51.91	11.63	12.18
Capital adequacy ratio (in %)	17.2	16.8	17.2	16.8
Earnings per share (PLN/EUR)	4.62	4.75	1.06	1.13
Diluted net earnings per share (PLN/EUR)	4.62	4.75	1.06	1.13
Declared or paid dividends per share (PLN/EUR)*	4.53	4.68	1.02	1.10

*The presented ratios are related to declared dividend from the appropriation of the 2016 profit and dividend paid in 2016 from the appropriation of the 2015 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 2016 - PLN 4.4240 (as at 31 December 2015: PLN 4.2615); for the income statement, statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in 2016 – PLN 4.3757 (in 2015: PLN 4.1848).



THE ANNUAL FINANCIAL STATEMENTS OF
BANK HANDLOWY W WARSZAWIE S.A.
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2016

MARCH 2017

CONTENTS

Income statement	6
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Cash flow statement	9
Explanatory notes to the financial statements	10
1. General information about the Bank	10
2. Significant accounting policies	10
3. Segment reporting	22
4. Net interest income	22
5. Net fee and commission income	23
6. Dividend income	23
7. Net income on trading financial instruments and revaluation	23
8. Hedge accounting income	24
9. Net other operating income	24
10. General administrative expenses	24
11. Depreciation expense	25
12. Sale of other assets	25
13. Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	25
14. Income tax expense	26
15. Earnings per share	27
16. Changes in other comprehensive income	27
17. Cash and balances with the Central Bank	27
18. Amounts due from banks	28
19. Financial assets and liabilities held-for-trading	28
20. Hedging derivatives	30
21. Debt securities available-for-sale	30
22. Equity investments	31
23. Amounts due from customers	32
24. Tangible fixed assets	34
25. Intangible assets	35
26. Impairment test for goodwill	36
27. Deferred income tax asset	36
28. Other assets	38
29. Amounts due to banks	38
30. Amounts due to customers	39

31.	Provisions	39
32.	Other liabilities	40
33.	Financial assets and liabilities by contractual maturity	40
34.	Capital and reserves	41
35.	Repurchase and reverse repurchase agreements	42
36.	Offsetting of financial assets and financial liabilities	43
37.	Hedge accounting	44
38.	Fair value information	44
39.	Contingent liabilities and litigation proceedings	47
40.	Assets pledged as collateral	49
41.	Custodian activities	49
42.	Operating leases	49
43.	Cash flow statement	50
44.	Transactions with the key management personnel	50
45.	Related parties	51
46.	Employee benefits	52
47.	Risk management	56
48.	Subsequent events	78

Income statement

	For the period	2016	2015
PLN'000	Note		
Interest and similar income	4	1,257,019	1,227,976
Interest expense and similar charges	4	(257,149)	(265,266)
Net interest income	4	999,870	962,710
Fee and commission income	5	591,196	655,465
Fee and commission expense	5	(64,795)	(61,406)
Net fee and commission income	5	526,401	594,059
Dividend income	6	29,005	22,957
Net income on trading financial instruments and revaluation	7	345,671	290,708
Net gain on debt investment securities available-for-sale		44,746	145,246
Net gain on capital investment instruments available-for-sale		95,913	2,232
Net gain on hedge accounting	8	9,553	7,949
Other operating income	9	37,245	41,174
Other operating expenses	9	(28,628)	(51,906)
Net other operating income	9	8,617	(10,732)
General administrative expenses	10	(1,108,862)	(1,183,516)
Depreciation expense	11	(69,128)	(68,085)
Profit/loss on sale of other assets	12	104	102
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	13	(48,759)	16,411
Tax on some financial institutions		(69,311)	-
Profit before tax		763,820	780,041
Income tax expense	14	(159,621)	(159,814)
Net profit		604,199	620,227
Weighted average number of ordinary shares (in pcs)	15	130,659,600	130,659,600
Net earnings per share (PLN)	15	4.62	4.75
Diluted net earnings per share (PLN)	15	4.62	4.75

Statement of comprehensive income

	For the period	2016	2015
PLN'000	Note		
Net profit		604,199	620,227
Other comprehensive income which may be reclassified to the income statement:			
Net valuation of financial assets available-for-sale	16	(51,252)	(216,431)
Other comprehensive income which may not be reclassified to the income statement:			
Net actuarial profits (losses) on specific services program valuation	16	-	886
Other comprehensive income after tax		(51,252)	(215,545)
Total comprehensive income for the period		552,947	404,682

Explanatory notes on pages 10-78 are an integral part of the annual financial statements.

Statement of financial position

	As at	31.12.2016	31.12.2015
PLN'000	Note		
ASSETS			
Cash and balances with the Central Bank	17	665,755	2,170,237
Amounts due from banks	18	586,973	756,859
Financial assets held-for-trading	19	3,772,162	6,959,692
Hedging derivatives	20	12,244	1,795
Debt securities available-for-sale	21	19,072,371	18,351,259
Equity investments	22	125,107	299,946
Amounts due from customers	23	18,795,341	18,847,968
Tangible fixed assets	24	332,336	342,941
Intangible assets	25	1,349,810	1,370,392
Receivables due to current income tax		12,911	14,351
Deferred income tax asset	27	199,354	162,059
Other assets	28	165,356	162,873
Non-current assets held-for-sale		1,928	1,928
Total assets		45,091,648	49,442,300
LIABILITIES			
Amounts due to banks	29	2,303,627	6,922,125
Financial liabilities held-for-trading	19	1,305,614	3,247,523
Hedging derivatives	20	39,897	112,383
Amounts due to customers	30	34,031,947	31,764,349
Provisions	31	22,068	22,814
Other liabilities	32	664,569	590,640
Total liabilities		38,367,722	42,659,834
EQUITY			
Share capital	34	522,638	522,638
Supplementary capital	34	2,944,585	2,944,585
Revaluation reserve	34	(215,061)	(163,809)
Other reserves	34	2,867,565	2,858,825
Retained earnings		604,199	620,227
Total equity		6,723,926	6,782,466
Total liabilities and equity		45,091,648	49,442,300

Explanatory notes on pages 10-78 are an integral part of the annual financial statements.

Statement of changes in equity

<i>PLN'000</i>	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
As at 1 January, 2016	522,638	2,944,585	(163,809)	2,858,825	620,227	6,782,466
Total comprehensive income, including:	-	-	(51,252)	-	604,199	552,947
net profit	-	-	-	-	604,199	604,199
valuation of financial assets available-for-sale	-	-	(51,252)	-	-	(51,252)
Dividends paid	-	-	-	-	(611,487)	(611,487)
Transfer to capital	-	-	-	8,740	(8,740)	-
As at 31 December 2016	522,638	2,944,585	(215,061)	2,867,565	604,199	6,723,926

Note: 16, 34

<i>PLN'000</i>	Share capital	Supplementary capital	Revaluation reserves	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

Explanatory notes on pages 10-78 are an integral part of the annual financial statements.

Cash flow statement

	For the period	2016	2015
<i>PLN'000</i>			
A. Cash flows from operating activities			
I. Net profit		604,199	620,227
II. Adjustments to reconcile net profit or loss to net cash provided by operating activities:		(2,816,746)	157,115
Current and deferred income tax recognized in income statement		159,621	159,814
Depreciation expense		69,128	68,085
Net impairment due to financial assets value loss		51,996	(13,625)
Net provisions (recoveries)		8,318	13,420
Net interest income		(999,870)	(962,710)
Dividend income from subsidiaries		(21,724)	(15,955)
Profit/loss on sale of investments		(74)	(77)
Net unrealized exchange differences		1,057	(8,836)
Other adjustments		(12,109)	6,946
Cash flows from operating income before changes in operating assets and liabilities		(743,657)	(752,938)
Change in operating assets (excl. cash and cash equivalents)		2,187,657	440,185
Change in amounts due from banks		(6,145)	1,279,141
Change in amounts due from customers		8,905	(2,284,406)
Change in debt securities available-for-sale		(932,036)	(4,285,478)
Change in equity investments		656	3,502
Change in financial assets held-for-trading		3,128,899	5,724,295
Change in hedging derivatives		(10,449)	(1,795)
Change in other assets		(2,173)	4,926
Change in operating liabilities (excl. cash and cash equivalents)		(4,260,746)	469,868
Change in amounts due to banks		(4,577,939)	1,992,067
Change in amounts due to customers		2,266,723	1,963,420
Change in liabilities held-for-trading		(1,941,909)	(3,523,399)
Change in amounts due to hedging derivatives		(72,486)	112,383
Change in other liabilities		64,865	(74,603)
Interest received		1,516,039	1,303,894
Interest paid		(260,162)	(264,967)
Income tax paid		(183,758)	(117,514)
III. Net cash flows from operating activities		(1,140,428)	1,698,755
B. Cash flows from investing activities			
Purchase of tangible fixed assets		(27,752)	(34,165)
Disposal of tangible fixed assets		1	20
Purchase of intangible assets		(15,441)	(20,597)
Disposal of fixed assets available-for-sale		73	250
Dividends received		21,724	15,955
Other investing inflows		129,684	58
Net cash flows from investing activities		108,289	(38,479)
C. Cash flows from financing activities			
Dividends paid		(611,487)	(970,801)
Inflows due to long-term loans from financial sector entities		21,873	56,461
Repayment of long-term loans from financial sector entities		(62,910)	(132,366)
Net cash flows from financing activities		(652,524)	(1,046,706)
D. Exchange rates differences resulting from cash and cash equivalents conversion		3,309	7,694
E. Net increase/ decrease in cash and cash equivalents		(1,681,354)	621,264
F. Cash at the beginning of the period		2,354,108	1,732,844
G. Cash at the end of the period (see Note 43)		672,754	2,354,108

Explanatory notes on pages 10-78 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, and 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 21 March 2017. 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 21 March 2017. 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 2016 to 31 December 2016 and for the statements of financial situation as at 31 December 2016. The comparable financial data are presented for the period from 1 January 2015 to 31 December 2015. and for the statements of financial situation as at 31 December 2015.

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.

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.

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

- IFRS 9 "Financial Instruments", approved by EU's, 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 measurement of certain financial instruments in the financial statements as well as the calculation of impairment of financial assets (IFRS 9 implementation progress is described below)..
- IFRS 15 "Revenue from Contracts with Customers" awaiting EU's endorsement, was published by IASB on 28th May 2015. 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 2016. This standard replaces requirements introduced by IAS 17 "Leases". Under the new standard, the 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 estimating of the potential impact of the standard on its financial statement.

Other changes to standards awaiting European Union endorsement:

- amendment to IAS 40 explaining conditions for classification of investment property,
- annual improvements cycle 2014-2016 including: IFRS 1 regarding specific exclusions for first time IFRS adopters, IFRS 12 explaining disclosures for interests in other entities,
- amendments to IFRS 2 regarding classification and measurement of share based payment, especially in form of shares settled in equity,
- amendments to IAS 12 in respect of recognition of unrealized losses from debt instruments in deferred tax, have no impact on financial statements.

IFRS 9 "Financial instruments"

Bank carried out the analysis of financial contracts held for the purpose of assessment of contract characteristics in respect of classification and measurement under IFRS 9. For specific cases there is still work to be performed to reach final conclusions in the assessment of classification and measurement.

In the corporate loan portfolio Bank identified mismatch of the tenor of the interest rate and its reset frequency. Solely payments of principal and interest (SPPI) test is designed for the purpose of confirmation, that those contracts will remain measured using amortized cost methodology. Also Bank assessed that specific contract clauses that could modify interest are related with customer credit risk and compliant with SPPI concept. Based on initial assessment Bank does not consider fair value measurement of corporate loans.

In the retail loan portfolio Bank holds credit card products and installment loans for credit card customers in which there is a leverage formula. It is not foreclosed that in the near future there may be a decision to modify existing contracts using formulas compliant with IFRS 9 SPPI logic in order to present them in the financial statements according to the current practice and logic that is coherent with the way it is managed and how it performs. However, it should be considered that Bank will measure the above mentioned portfolios using fair value methodology. Soon work will be started to create respective models to carry out that task. For now it is not possible to estimate impact of that measurement on the financial statement of the Bank. Bank infers that other retail products will be measured amortized cost methodology.

In the area of treasury products Bank, based on initial assessment, does not identify change to current logic of classification and measurement of securities. It is to be expected that securities that so far have been measured in the category of available for sale will be measured the same way in the portfolio of fair value through other comprehensive income (FVOCI), so they will be measured at fair value recognized the changes in other comprehensive income.

Based on the history and plans for approach to management of assets in respect of the way cash flows from loan contracts are realized, Bank infers that business model assessment does not provoke changes in classification and measurement compared current practice under IAS 39. Bank grants loans and other forms of financing currently classified as loans under IAS 39 in order to obtain cash flows resulting from repayment of principal and interest only. Portfolio sales take place very rarely. In retail area Bank sold a significant credit deteriorated portfolio only once in 2016 and once in 2016. In 2017 no sales are planned. For corporate loans sales are also very rare and concern single exposures. All sales concerned credit deteriorated portfolios, exposures. So business model criteria determine that amortized cost is the right approach to measurement (assuming the SPPI is met).

Bank has not purchased any portfolios and in the processes of restructuring of contracts have not identified situations requiring derecognition from balance sheet. It is so neither to be expected that according to IFRS 9 Bank will present purchased or originated credit-impaired assets (POCI) nor that interest income will be impacted, as it will be recognized in the same manner as under IAS 39.

All the above aspects, in order to obtain assurance that conclusions reached by Bank and requirements identified are correct, will be verified in the first half of 2017 by independent professional entity.

There will be no changes to hedge accounting program used by Bank both in terms of the nature of the hedge relationship, as well as in respect of amounts. Modifications related to the need to adopt IFRS 9 are limited to internal documentation update and adjustment of the appropriate processes.

The Bank started implementation of IFRS 9 in 2016, at first focusing on checking the adequacy of the existing in Bank tools and models to the impairment requirements defined in Standard as well as on identifying gaps in the processes used to calculate provisions. Review has covered all existing products and portfolios. Bank adopted implementation schedule according to identified needs.

Implementation plan includes quantitative elements related to the analytical part, understood as the development of existing and construction of new risk assessment tools / models as well as qualitative elements, including changes in internal rules governing process of credit exposures management, provisions calculation and reporting, in particular internal documents regulating these processes. Bank striving to optimize the workload assumed that most of the tasks will be performed in parallel, allowing efficient flow of information between various organizational units of the institution. Activities related to the construction of models and documentation should be completed by the end of second quarter of 2017 to allow parallel run. Second half of 2017 will be dedicated to model validation as well as changes in credit processes and internal regulations.

The key assumption standing behind implementation schedule was to provide sufficient time for Model Validation Bureau to conduct independent validation of newly prepared tools. The review is to cover a wide range of aspects including: correctness of methodological assumptions, assessment whether regulatory requirements are met, adequacy of the data used, quantitative tests and correctness of tools implementation in Bank's production environment. Publication of the validation report, including an evaluation of the correctness of implementation in the Bank's systems is scheduled for the fourth quarter of 2017 year.

The last point in the schedule planned for the end of 2017 is a series of training courses for Bank employees aimed at broadening knowledge about the changes.

The whole process of implementation, as per expectations of European Securities and Markets Authority, will be monitored by the Audit Committee.

According to the adopted schedule analytical work will be divided into two main parts. For customers from Corporate and Commercial sectors work will be focused on adjusting existing tools used to assess the creditworthiness of the customer to the requirements of IFRS 9. Due to high credit quality of the portfolio, and hence low default rates, the biggest challenge is to calibrate PD Life Time model. To achieve this objective Bank is collaborating with Citigroup to maximize the potential standing behind shared databases. It should be noted, however, that the final product will have to pass rigorous requirements of the internal model risk management policy which emphasizes the need of the correctness of the model fit to local conditions.

Second stream of the work is devoted to customers from Retail Banking Sector for which Bank assumes to use existing scorecards and based on them build new models for the provision calculation. The main focus is on development, for all major Bank's portfolios, coherent, uniform and stable methodology that will allow to identify all causes standing behind changes in the reserve levels. As a starting point Bank adopted current credit and collection policies including cut-offs levels as well as early-warning indicators that allow for identification in advance clients with increased risk.

In connection with the implementation of standard Bank assumes an increase in provision levels which, as expected, will be reflected in the following years in the Bank's capital. The increase in provisions is related to performing portfolio and has a twofold ground:

- a) increase in the coverage for Stage 1 accounts from the period of LIP (Loss Identification Period) to 12 months,
- b) necessity for the accounts qualified to Stage 2 to recognize the losses over the entire horizon of a account's life.

Therefore, much emphasis must be put on defining clear and transparent criteria standing behind significant increase in credit risk concept. These criteria should be constant over time, which will enable to conduct an analysis of the reasons for changes in provisions.

It should also be noted that the implementation of these regulations shall not affect the Bank's business model.

Bank carries out the work of implementation under the guidance of the Steering Committee, which includes, among others, board members responsible for the areas of finance and risk. The work schedule is dependent on the final conclusions of agreement analysis and verification by the professional external entity. It is assumed that before half year of 2017 end, the Bank will have the final, verified conclusions regarding the classification and valuation method for key products.

As signaled, in probable case of valuation of selected exposures at fair value, the Bank assumes that by the end of the third quarter of 2017, a model for the implementation of this obligation will be developed.

In the second half of 2017 internal documentation and processes required to implement the obligations arising from IFRS 9 will be adjusted.

Standards demanding applications for the first time in 2016

In 2016 the following standards became applicable, but their implementation has no significant impact on the financial statement:

- amendments to IAS 1 – concerns significance and decomposition of information in the financial statement

- amendments to IFRS 11 – regards obligation of application of accounting for acquisitions of interests in joint operations
- amendments to IAS 16 – eliminates option of amortization of tangible fixed asset based on income generation
- amendments to IAS 19 – describes change of discount rate estimation for measurement of employee benefits
- amendment to IAS 38 - eliminates option of amortization of intangible asset based on income generation
- amendments to IAS 27 – allows use of equity method in separate financial statements
- annual improvements to IFRS cycles 2010-2012 and 2012-2014 – regard insignificant standards changes without impact to Bank.

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 2015 according to the opinion of the Ministry of Finance and the statement of Financial Supervision Authority mentioned above, in order to ensure compliance with the recommended approach and comparability of the financial statements across the banking sector in respect to accounting for Bank Guarantee Fund costs, the Bank decided to amortize those costs over 2015, the same way as in previous years.

If Bank had recognized Bank Guarantee Fund costs immediately, the costs of operations and general management presented in this condensed interim financial statement for the 1st half of 2015 would increase by PLN 33,672 thousand. As a result, the consolidated net profit of the Bank for the 1st half of 2015 would be reduced by PLN 28,613 thousand.

In 2016, the amendment of the Act on Bank Guarantee Fund of 14 December 1994 changed the way and dates of calculating payments for Bank Guarantee Fund from annual to quarterly. Tax expenses in both periods are comparable.

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 2016	31 December 2015
1	USD	4.1793	3.9011
1	CHF	4.1173	3.9394
1	EUR	4.4240	4.2615

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 the case of financial assets or financial liabilities measured at fair value through profit or loss, they are shown in revenues or expenses;
- profits or losses resulting from 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 an asset, liability or unrecognized firm commitment, or a separated part of such an asset, liability or to which a particular risk may be attributable and which may affect profit or loss.

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

Offsetting financial instruments

Financial assets and financial liabilities are offset and presented in the statement of financial position on a net basis when there is a legally enforceable right to offset and their settlement is intended to take place on a net basis or to realize the asset and settle the liability simultaneously. Currently, the 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 the case of sale of the securities previously purchased in the reverse repo transaction, the Bank recognizes liabilities due to the short sale of securities. These liabilities are evaluated fair value.

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 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 the sale of receivables. The future cash flows are discounted to the present value with the effective interest rate for a given instrument.

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

Impairment allowances for individually not significant assets

The level of 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 an active market) and equity investments in dependent entities measured at purchase price in accordance with IAS 27 (Separate Financial Statements). In the case of objective evidence of impairment of equity investments, the amount of impairment 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 the 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 the case of assets other than financial assets is higher fair value less selling costs and value in use. For value in use calculation, the estimation of future cash flows is discounted to their present value using the discount rate before taxation, which represents present market expectations regarding money value and specific risk regarding an asset. For assets that are not generating independent cash flows, the recoverable amount is estimated for cash-generating unit, the asset owner.

Reversal of revaluation write-offs

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

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

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 no 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 2016.

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 under stock award programs based on shares of Citigroup common stock in the form of deferred stock (CAP) and under stock award programs based on phantom shares of Bank Handlowy w Warszawie S.A. In 2015 the SOP programme was completed. All the options which had not been completed until the 29th 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 the "statement of financial position" and "General administrative expenses" in the income statement. The costs of the program are determined on the basis of the Bank's shares price or Citigroup shares price. According to IFRS, the fair value is measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value deferred shares at the reporting date times the part of the rights that were deemed acquired in that period.

Long-term employee benefits

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

A component of variable remuneration granted to the Management Board and to the persons holding 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 also if it is probable that the discharge of this obligation will result in an outflow of economic benefits, and the provision amount can be reliably estimated.

Restructuring provision

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

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

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

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

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

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

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

Hedge accounting income

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

Other operating income and expenses

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

Income tax

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated 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 a Credit Default Swap quotation for valuation of counterparty credit risk.

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

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

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

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

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 an impairment loss equal to the difference between the carrying value and the estimated present value of the future cash flows from a given loan exposure. 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 an influence on the methodology applied by the Bank.

Impairment of goodwill

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

Employee benefits

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

3. Segment reporting

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 2016, 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 2016, i.e. 21 March 2017.

4. Net interest income

<i>PLN'000</i>	2016	2015
Interest and similar income due to:		
Balances with Central Bank	17,918	16,726
Amounts due from banks	19,924	38,001
Amounts from customers, including:	835,765	774,063
financial sector entities	30,025	19,893
non-financial sector entities	805,740	754,170
Debt securities available-for-sale	311,412	297,497
Debt securities held-for-trading	48,151	73,416
Liabilities with negative interest rate	3,676	-
Hedging derivatives	20,173	28,273
	1,257,019	1,227,976
Interest expense and similar charges due to:		
Amounts due to Central Bank	(82)	-
Amounts due to banks	(41,546)	(40,967)
Amounts due to financial sector entities	(56,617)	(60,878)
Amounts due to non-financial sector entities	(111,209)	(113,624)
Loans and advances received	(865)	(1,536)
Assets with negative interest rate	(945)	-
Derivatives in hedge accounting	(45,885)	(48,261)
	(257,149)	(265,266)
Net interest income	999,870	962,710

Net interest income for 2016 includes interest accrued on impaired loans of PLN 13,408 thousand (for 2015: PLN 16,921)

thousand).

5. Net fee and commission income

PLN'000	2016	2015
Fee and commission income:		
Insurance and investment products (agency)	79,564	119,656
Payment and credit cards	158,912	188,001
Payment services	105,469	110,993
Custody services	108,376	123,637
Charges from cash loans	1,351	2,606
Cash management services on customers' accounts	25,437	26,454
Granted guarantee liabilities	18,435	16,343
Granted financial liabilities	5,882	5,420
Other	87,770	62,355
	591,196	655,465
Fee and commission expense:		
Payment and credit cards	(27,623)	(24,977)
Fees paid to the National Depository for Securities (KDPW)	(17,481)	(19,367)
Brokers fees	(4,246)	(4,512)
Other	(15,445)	(12,550)
	(64,795)	(61,406)
Net fee and commission income	526,401	594,059

The net fee and commission income for 2016 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 165,169 thousand (for 2015: PLN 194,649 thousand) and commission expenses in the amount of PLN 27,623 thousand (for 2015: PLN 24,977 thousand).

6. Dividend income

Dividend income amounted to PLN 29,005 thousand in 2016 (2015: PLN 22,957 thousand) include dividends received and due from the Bank's subsidiaries - PLN 21,724 thousand (in 2015: PLN 15,955 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	2016	2015
Net income on financial instruments measured at fair value through profit of loss from:		
Debt instruments	(53,747)	(29,914)
Derivative instruments, including:	39,898	54,091
Interest rate derivatives	39,854	53,614
	(13,849)	24,177
Net profit on foreign exchange		
Net profit on foreign currency derivatives	468,071	361,841
Revaluation	(108,551)	(95,310)
	359,520	266,531
Net income on trading financial instruments and revaluation	345,671	290,708

The net income on trading financial instruments and revaluation for 2016 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 18,894 thousand (in 2015: PLN (11,170) 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	2016	2015
Fair value hedge accounting		
Net gain on hedged transaction valuation	(37,135)	94,294
Net gain on hedging transaction valuation	46,688	(86,345)
Hedge accounting income	9,553	7,949

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	2016	2015
Other operating income		
Services provided for related parties	11,818	12,002
Rental of office space	10,325	10,449
Reversal of provision on litigations	3,391	-
Other	11,711	18,723
	37,245	41,174
Other operating expenses		
Amicable procedure and debt collection expenses	(11,416)	(19,509)
Fixed assets held-for-sale maintenance cost	(118)	(173)
Creation of provisions for litigations (net)	-	(15,598)
Other	(17,094)	(16,626)
	(28,628)	(51,906)
Net other operating income	8,617	(10,732)

10. General administrative expenses

PLN'000	2016	2015
Staff expenses		
Remuneration costs, including:	(385,912)	(391,511)
Provisions for retirement allowances	(28,369)	(24,117)
Bonuses and rewards, including:	(87,173)	(91,163)
Payments related to own equity instruments	(9,100)	(10,215)
Rewards for long time employment	(35)	(45)
Social insurance costs	(64,809)	(65,489)
	(537,894)	(548,163)
Administrative expenses		
Telecommunication fees and hardware purchases	(183,938)	(195,089)
Costs of external services, including advisory, audit, consulting services	(54,872)	(65,219)
Building maintenance and rent costs	(84,290)	(81,976)
Advertising and marketing costs	(27,489)	(10,595)
Cash management service, KIR service and other transactional costs	(39,247)	(42,580)
Costs of external services related to the distribution of banking products	(18,183)	(15,717)
Postal services, office supplies and printmaking costs	(10,973)	(10,067)
Training and education costs	(2,588)	(2,709)
Banking and capital supervision costs	(1,145)	(3,744)
Bank Guarantee Funds costs	(75,070)	(130,954)

PLN'000	2016	2015
Other expenses	(73,173)	(76,703)
	(570,968)	(635,353)

General administrative expenses, total	(1,108,862)	(1,183,516)
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Staff expenses include the following employee benefits for current and former members of the Management Board.

PLN'000	2016	2015
Short-term employee benefits	12,885	12,536
Long-term employee benefits	3,706	4,397
Capital assets	3,727	3,705
	20,318	20,638

11. Depreciation expense

PLN'000	2016	2015
Depreciation of property and equipment	(31,871)	(33,932)
Amortization of intangible assets	(37,257)	(34,153)
Depreciation expense, total	(69,128)	(68,085)

12. Sale of other assets

PLN'000	2016	2015
Profits on:		
Sale of property	31	60
Sale of fixed assets held-for-sale	73	43
	104	103
Losses on:		
Sale of property and equipment	-	(1)
	-	(1)
Result from the disposal of other assets	104	102

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

PLN'000	2016			
	Institutional customers	Retail customers	Banks	Total
Impairment allowances for financial assets:				
Equity investments	(225)	-	-	(225)
Amounts due from banks and customers	(50,673)	(138,634)	(3,426)	(192,733)
Amounts due from matured transactions in derivative instruments	(73)	-	-	(73)
	(50,971)	(138,634)	(3,426)	(193,031)
Reversals of impairment allowances for financial assets:				
Amounts due from banks and customers	52,788	50,742	4,592	108,122
Amounts due from matured transactions in derivative instruments	7,693	-	-	7,693
Recovery on the sale of debt, previously written-off	9,438	10,067	-	19,505
Other	(2,296)	8,012	-	5,716
	67,623	68,821	4,592	141,036
Net impairment due to financial assets value losses	16,652	(69,813)	1,166	(51,995)

PLN'000	2016			
	Institutional customers	Retail customers	Banks	Total
Establish of provisions for granted financial and guarantee commitments	(17,913)	-	-	(17,913)
Release of provisions for granted financial and guarantee commitments	21,097	52	-	21,149
Net impairment due to provisions for granted financial and guarantee commitments	3,184	52	-	3,236
Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted	19,836	(69,761)	1,166	(48,759)

PLN'000	2015			
	Institutional customers	Retail customers	Banks	Total
Impairment write-offs of 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 write-offs of 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 the 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
Establishment 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

14. Income tax expense

Recognized in the income statement

PLN'000	2016	2015
Current tax		
Current year	(165,991)	(113,304)
Adjustments for prior years	(18,903)	(194)
	(184,894)	(113,498)
Deferred tax		
Origination and reversal of temporary differences	25,273	(46,316)
	25,273	(46,316)
Total income tax expense in income statement	(159,621)	(159,814)

Reconciliation of effective tax rate

<i>PLN'000</i>	2016	2015
Profit before tax	763,820	780,041
Income tax at the domestic corporate tax rate of 19%	(145,126)	(148,208)
Impairment write-offs not constituting deductible expenses	(5,298)	(11,559)
Deductible income not recognized in the income statement	(496)	(629)
Non taxable income	5,496	4,362
Other permanent differences, including other non-deductible expenses	(14,197)	(3,780)
Total tax expenses	(159,621)	(159,814)
Effective tax rate	20.90%	20.49%

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2016 is related to debt and equity instruments available-for-sale and valuation of defined benefit plan and amounted to PLN 51,565 thousand (31 December 2015: PLN 39,543 thousand).

15. Earnings per share

As at 31 December 2016, earnings per share amounted to PLN 4.62 (31 December 2015: PLN 4.75).

The calculation of earnings per share as at 31 December 2016 was based on profit attributable to shareholders of PLN 604,199 thousand (31 December 2015: PLN 620,227 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2016 of 130,659,600 (31 December 2015: 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.

<i>PLN'000</i>	Gross amount	Deferred income tax	Net amount
As at 1 January 2016	(208,122)	39,543	(168,579)
AFS valuation change	(108,020)	20,524	(87,496)
Valuation of sold AFS moved to income statement	44,746	(8,502)	36,244
As at 31 December 2016	(271,396)	51,565	(219,831)

<i>PLN'000</i>	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 losses on a defined benefit plan	1,093	(207)	886
As at 31 December 2015	(208,122)	39,543	(168,579)

17. Cash and balances with the Central Bank

<i>PLN'000</i>	31.12.2016	31.12.2015
Cash in hand	380,757	477,105
Current balances with Central Bank	3,587	1,693,132
Deposits	281,411	-
Cash and balances with the Central Bank, total	665,755	2,170,237

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 2016 to PLN 1,149,911 thousand (31 December 2015: PLN 1,277,754 thousand).

18. Amounts due from banks

PLN'000	31.12.2016	31.12.2015
Current accounts	8,785	184,201
Deposits	-	28,111
Loans and advances	913	4,461
Unlisted securities	-	28,455
Liabilities due to purchased securities with a repurchase agreement	418,283	215,166
Deposits pledged as collateral of derivative instruments and stock market transactions	159,169	286,641
Other receivables	-	11,574
Total gross amount	587,150	758,609
Impairment write-offs	(177)	(1,750)
Total net amounts due from banks	586,973	756,859

The movement in amounts due from banks is as follows:

PLN'000	2016	2015
As at 1 January	(1,750)	(2,880)
Increases (due to):		
Write-offs creation	(3,426)	(3,900)
Decreases (due to):		
Write-offs release	4,592	4,972
Other	407	58
As at 31 December	(177)	(1,750)

As at 31 December 2016 and 31 December 2015, 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	31.12.2016	31.12.2015
Debt securities held-for-trading		
Bonds and notes issued by:		
Banks*	482	379,866
Other financial entities	58,299	33,054
Central governments	2,546,247	4,279,640
	2,605,028	4,692,560
Including:		
Listed on active market	2,605,028	4,297,762
Unlisted on active market	-	394,798
Derivative financial instruments	1,167,134	2,267,132
Financial assets held-for-trading, total	3,772,162	6,959,692

*As at 31 December 2016, the part of securities (bonds) issued by banks in the amount of PLN 482 thousand are covered by Government guarantees (31 December 2015: PLN 406 thousand).

Financial liabilities held-for-trading

PLN'000	31.12.2016	31.12.2015
Short positions in financial assets	208,106	988,102

Derivative financial instruments	1,097,508	2,259,421
Financial liabilities held-for-trading, total	1,305,614	3,247,523

As at 31 December 2016 and 31 December 2015, 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 2016 and 31 December 2015, financial assets from derivatives transactions were not adjusted due to counterparty credit risk.

Derivative financial instruments as at 31 December 2016

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	19,554,407	23,382,572	57,901,103	24,179,834	125,017,916	873,191	913,240
FRA	15,100,000	12,295,600	750,000	-	28,145,600	1,352	1,458
Interest rate swaps (IRS)	2,590,538	7,406,664	46,239,791	14,195,451	70,432,444	475,564	531,287
Currency-interest rate swaps (CIRS)	1,695,111	3,680,308	8,821,662	9,984,383	24,181,464	386,873	370,946
Interest rate options	80,890	-	2,089,650	-	2,170,540	9,402	9,350
Futures*	87,868	-	-	-	87,868	-	199
Currency instruments	13,847,064	5,701,087	2,130,378	37,014	21,715,543	254,131	143,840
FX forward	2,222,894	1,710,653	337,921	37,014	4,308,482	82,173	42,147
FX swap	9,689,383	784,910	1,562,143	-	12,036,436	117,387	46,958
Foreign exchange options	1,934,787	3,205,524	230,314	-	5,370,625	54,571	54,735
Securities transactions	758,620	-	-	-	758,620	2,812	3,331
Securities purchased / sold pending delivery	758,620	-	-	-	758,620	2,812	3,331
Commodity transactions	149,986	358,250	41,072	-	549,308	37,000	37,097
Swaps	70,024	306,423	41,072	-	417,519	23,775	23,824
Options	79,962	51,827	-	-	131,789	13,225	13,273
Total derivative instruments	34,310,077	29,441,909	60,072,553	24,216,848	148,041,387	1,167,134	1,097,508

*Exchange-traded products

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
Swap	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

20. Hedging derivatives

Assets - Positive valuation

PLN'000	31.12.2016	31.12.2015
Balance sheet valuation of instruments hedging the fair value of securities		
IRS transactions	12,244	1,795

Liabilities – Negative valuation

PLN'000	31.12.2016	31.12.2015
Balance sheet valuation of instruments hedging the fair value of securities		
IRS transactions	39,897	112,383

Hedging derivatives as at 31 December 2016

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)	-	-	3,266,396	1,338,000	4,604,396

Hedging derivatives 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	31.12.2016	31.12.2015
Bonds and notes issued by:		
Central bank	2,239,715	-
Other banks*	66,384	1,509,007
Central governments, including:	16,766,272	16,842,252
bonds subject to fair value hedge accounting	4,794,696	4,657,996
Debt securities available-for-sale, total	19,072,371	18,351,259
Including:		
Listed on active market instruments	16,832,656	17,730,251
Unlisted on active market instruments	2,239,715	621,008

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

PLN'000	2016	2015
As at 1 January	18,351,259	14,435,099
Increases (due to):		
Purchases	41,491,375	172,338,701
Foreign exchange differences	260,691	213,522
Depreciation of discount, premium and interest	164,552	241,808
Decreases (due to):		
Sale	(40,907,900)	(168,634,720)
Revaluation	(50,431)	(243,151)
Depreciation of premium	(237,175)	-
As at 31 December	19,072,371	18,351,259

*As at 31 December 2016, some of the securities (bonds) issued by other banks in the amount of PLN 66,384 thousand are covered by Government guarantees (31 December 2015: PLN 556,274 thousand).

22. Equity investments

PLN'000	31.12.2016	31.12.2015
Shares in subsidiaries	116,103	244,530
Shares available-for-sale	29,389	76,978
Impairment	(20,385)	(21,562)
Equity investments, total	125,107	299,946
Including:		
Listed on active market instruments	839	755
Unlisted on active market instruments	124,268	299,191

The movement in equity investments is as follows:

PLN'000	Subsidiaries	Other entities	Total
As at 1 January 2016	232,454	67,492	299,946
Decreases (due to):			
Sale*	-	(656)	(656)
Revaluation	(1,482)	(44,274)	(45,756)
Settlement due to subsidies	(128,370)	-	(128,370)
Reducing the share capital	(57)	-	(57)
As at 31 December 2016	102,545	22,562	125,107

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 payments	(58)	-	(58)
As at 31 December 2015	232,454	67,492	299,946

*In the 2016 the following events took place:

- there was a sale of shares in Odlewnie Polskie S.A.. The balance value of sold shares amounted to PLN 656 thousand and the profit on sales to PLN 2,938 thousand.

**In the 2015 the following events took place:

- there was 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 31 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 sale 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 carrying/ book value of sold shares amounted to PLN 3,517 thousand and the profit on sales to PLN 2,232 thousand.

Financial information on subsidiaries, 31.12.2016

PLN'000										
Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
HANDLOWY – LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	97.47	15,720	44,921	9,022	35,899	7,772	7,691
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100.00	70,950	406,650	297,426	109,224	66,034	12,694
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100.00	9,442	Entity under liquidation				
HANDLOWY	Luxembourg	Investment	Subsidiary	100.00	5,469	19,303	447	18,856	421	(55)

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/loss
INVESTMENTS S.A.		activity								
HANDLOWY – INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100.00	964	10,913	29	10,885	212	50
102,545										

*direct share

The explanation of indirect relationships:

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

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	414	44,921	9,022	35,899	7,772	7,691

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2017, which is the entity's balance sheet date.

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	184,632	45,505	139,127	18,187	3,928
DOM MAKLEPSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100.00	70,950	348,412	234,009	114,403	76,470	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	222	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	3,125	184,632	45,505	139,127	15,187	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, except for PPH Spomasz Sp. z o.o. 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.

23. Amounts due from customers

PLN'000	31.12.2016	31.12.2015
Amounts due from financial sector entities		
Loans and advances	293,117	307,402
Debt securities unlisted	1,199,671	199,724
Receivables subject to securities sale and repurchase agreements	-	1,356,247
Guarantee funds and deposits pledged as collateral	160,349	119,047
Total gross amount	1,653,137	1,982,420

<i>PLN'000</i>	31.12.2016	31.12.2015
Impairment write-offs	(17,810)	(17,270)
Total net amount	1,635,327	1,965,150
Amounts due from non-financial sector entities		
Loans and advances	16,051,239	15,254,953
Unlisted debt securities	514,401	1,075,891
Purchased receivables	1,116,054	1,102,720
Effectuated guarantees	1,056	1,577
Other receivables	18,671	7,803
Total gross amount	17,701,421	17,442,944
Impairment write-offs	(541,407)	(560,126)
Total net amount	17,160,014	16,882,818
Total net amounts due from customers	18,795,341	18,847,968

The Bank decided to invest in securities based on economic calculation, measuring return on investment against the potential risks. The Bank that owns the portfolio (the Initiator) founds a special purpose company (SPV) in order to issue debt securities in each securitization transaction. The issued debt securities are solely repaid from the cash flows generated by securitized receivables portfolio which the SPV bought from the Initiator. Until now the Bank acted as investor and acquired the senior tranche in the amount of PLN 1,199,611 thousand. Securities purchased by the Bank are not traded on the market. The Group intends to maintain investments until the maturity date. The main risk of securitisation transactions is credit risk. Bank's maximum exposure to loss from involvement in these entities is equal to their carrying gross value, as at 31 December 2016 in the amount of PLN 1,199,671 thousand (31 December 2015: PLN 199,724 thousand). The carrying value of assets relating to Bank participation in unconsolidated structured entities as at 31 December 2016 in the amount of PLN 1,199,611 thousand (31 December 2015: PLN 199,714 thousand).

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

<i>PLN'000</i>	31.12.2016	31.12.2015
Portfolio impairment loss	(227,432)	(222,876)
Individual impairment loss	(252,096)	(289,855)
Incurred but not reported losses (IBNR)	(79,689)	(64,665)
Impairment loss, total	(559,217)	(577,396)

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

	2016			2015		
<i>PLN'000</i>	Institutional customers	Retail customers	Total	Institutional customers	Retail customers	Total
As at 1 January	(313,480)	(263,916)	(577,396)	(341,320)	(395,318)	(736,638)
Increases (due to):						
Creation of write-offs	(50,673)	(138,634)	(189,307)	(62,299)	(110,977)	(173,276)
Other	(12,830)	607	(12,223)	(3,254)	433	(2,821)
Decreases (due to):						
Restating receivables into write-offs	22,033	24,272	46,305	29,567	58,338	87,905
Reversal of write-offs on receivables on made derivatives transactions	7,620	-	7,620	1,105	-	1,105
Write-offs release	52,788	50,742	103,530	61,464	91,436	152,900
Sale of receivables	20,107	42,147	62,254	1,257	92,172	93,429
As at 31 December	(274,435)	(284,782)	(559,217)	(313,480)	(263,916)	(577,396)

24. Tangible fixed assets

Movements of tangible fixed assets in 2016

<i>PLN'000</i>	Land and buildings	Vehicles	Other	Under construction	Total
Gross amount					
As at 1 January 2016	604,216	121	290,664	9,457	904,458
Increases:					
Purchases	137	-	3,388	24,227	27,752
Other increases	45	-	227	-	272
Decreases:					
Liquidation	(25,560)	-	(22,002)	-	(47,562)
Other decreases	(20)	-	(742)	-	(762)
Transfers	4,477	-	5,158	(14,219)	(4,584)
As at 31 December 2016	583,295	121	276,693	19,465	879,574
Depreciation					
As at 1 January 2016	305,481	119	255,917	-	561,517
Increases:					
Amortization charge for the period	17,037	2	14,832	-	31,871
Other increases	8	-	231	-	239
Decreases:					
Liquidation	(24,163)	-	(21,479)	-	(45,642)
Other decreases	-	-	(747)	-	(747)
As at 31 December 2016	298,363	121	248,754	-	547,238
Carrying amount					
As at 1 January 2016	298,735	2	34,747	9,457	342,941
As at 31 December 2016	284,932	-	27,939	19,465	332,336

Movements of tangible fixed assets in 2015

<i>PLN'000</i>	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	-	-	-	-	-
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 charge 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					

<i>PLN'000</i>	Land and buildings	Vehicles	Other	Under construction	Total
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

25. Intangible assets

Movements of intangible assets in 2016

<i>PLN'000</i>	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2016	1 245 976	735	400 064	18 242	10 332	1 675 349
Increases:						
Purchases	-	-	812	-	14 629	15 441
Decreases:						
Liquidation	-	-	(4 610)	-	-	(4 610)
Transfers	-	-	13 638	-	(12 271)	1 367
As at 31 December 2016	1 245 976	735	409 904	18 242	12 690	1 687 547
Depreciation						
As at 1 January 2016	-	735	285 980	18 242	-	304 957
Increases:						
Amortization charge for the period	-	-	37 257	-	-	37 257
Decreases:						
Liquidation	-	-	(4,477)	-	-	(4,477)
As at 31 December 2016	-	735	318,760	18,242	-	337,737
Carrying amount						
As at 1 January 2016	1,245,976	-	114,084	-	10,332	1,370,392
As at 31 December 2016	1,245,976	-	91,144	-	12,690	1,349,810

Movements of intangible assets in 2015

<i>PLN'000</i>	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

As at 31 December 2016, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank

Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise of ABN AMRO Bank (Poland) S.A. as at 1 March 2005.

26. Impairment test for goodwill

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

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

Book value of goodwill allocated to unit

PLN'000	31.12.2016
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 2016, the discount rate amounted to 9.20% (9.10% at the end of 2015).

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 2016.

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	31.12.2016	31.12.2015
Deferred income tax asset	405,472	566,358
Deferred income tax liability	206,118	404,299
Deferred income tax net asset	199,354	162,059

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	31.12.2016	31.12.2015
Interest accrued and other expense	10,763	14,489
Revaluation impairment write-offs	39,680	36,950
Unrealized premium from securities	46,370	8,273
Negative valuation of derivative financial instruments	158,447	374,063
Negative valuation of securities held-for-trading	2,938	2,892
Income collected in advance	26,455	19,122
Valuation of shares	2,039	2,545
Commissions	8,181	8,526
Debt and equity securities available-for-sale	50,446	38,424
Staff expenses and other cost due to pay	57,155	56,318
Other	2,998	4,756
Deferred income tax asset	405,472	566,358

Deferred income tax liability is attributable to the following:

<i>PLN'000</i>	31.12.2016	31.12.2015
Interest accrued (income)	39,035	21,375
Positive valuation of derivative financial instruments	127,598	318,957
Unrealized securities discount	7,372	1,105
Income to receive	4,842	4,131
Positive valuation of securities held-for-trading	(69)	1,950
Debt and equity securities available-for-sale	9,313	18,602
Investment relief	12,334	13,236
Other	5,693	24,943
Deferred income tax liability	206,118	404,299
Net asset for deferred income tax	199,354	162,059

Movement in temporary differences during the year 2016

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

<i>PLN'000</i>	As at 1 January 2016	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2016
Interest accrued and other expense	14,489	(3,726)	-	10,763
Revaluation impairment write-offs	36,950	2,730	-	39,680
Unrealized premium from securities	8,273	38,097	-	46,370
Negative valuation of derivative financial instruments	374,063	(215,616)	-	158,447
Negative valuation of securities held-for-trading	2,892	46	-	2,938
Income collected in advance	19,122	7,333	-	26,455
Valuation of shares	2,545	(506)	-	2,039
Commissions	8,526	(345)	-	8,181
Debt and equity securities available-for-sale	38,424	-	12,022	50,446
Staff expenses and other costs due to pay	56,318	837	-	57,155
Other	4,756	(1,758)	-	2,998
	566,358	(172,908)	12,022	405,472

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

<i>PLN'000</i>	As at 1 January 2016	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2016
Interest accrued (income)	21,375	17,660	-	39,035
Positive valuation of derivative financial instruments	318,957	(191,359)	-	127,598
Unrealized securities discount	1,105	6,267	-	7,372
Income to receive	4,131	711	-	4,842
Positive valuation of securities held-for-trading	1,950	(2,019)	-	(69)
Debt and equity securities available-for-sale	18,602	(9,289)	-	9,313
Investment relief	13,236	(902)	-	12,334
Other	24,943	(19,250)	-	5,693
	404,299	(198,181)	-	206,118
Change in net assets for deferred income tax	162,059	25,273	12,022	199,354

Movement in temporary differences during the year 2015

The movement in temporary differences relating to deferred tax assets:

<i>PLN'000</i>	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

<i>PLN'000</i>	As at 1 January 2015	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2015
Negative valuation of derivative financial instruments	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 costs 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 tax liability:

<i>PLN'000</i>	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
Positive valuation of derivative financial instruments	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 asset for deferred income tax	157,815	(46,316)	50,560	162,059

28. Other assets

<i>PLN'000</i>	31.12.2016	31.12.2015
Interbank settlements	3,556	4,357
Income to receive	67,456	66,705
Staff loans out of the Social Fund	17,574	17,628
Sundry debtors	72,597	67,064
Prepayments	4,173	6,416
Other	-	703
Other assets, total	165,356	162,873
Including financial assets*	93,727	89,752

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

29. Amounts due to banks

<i>PLN'000</i>	31.12.2016	31.12.2015
Current accounts	1,466,806	681,199
Term deposits	503,408	4,460,596
Loans and advances received	121,026	156,867
Liabilities due to sold securities under repurchase agreements	212,372	1,623,456
Other liabilities	15	7
Amounts due to banks, total	2,303,627	6,922,125

30. Amounts due to customers

<i>PLN'000</i>	31.12.2016	31.12.2015
Deposits from financial sector entities		
Current accounts	695,551	211,121
Term deposits	4,199,600	3,395,641
	4,895,151	3,606,762
Deposits from non-financial sector entities		
Current accounts, including:	22,202,431	20,149,572
institutional customers	10,883,841	10,453,867
individual customers	8,192,551	7,030,099
public sector units	3,126,039	2,665,606
Term deposits, including:	6,816,861	7,697,253
institutional customers	5,041,806	5,972,651
individual customers	1,664,395	1,665,218
public sector units	110,660	59,384
	29,019,292	27,846,825
Total deposits	33,914,443	31,453,587
Other liabilities		
Securities sold under repurchase agreements	-	188,505
Other liabilities, including:	117,504	122,257
liabilities due to deposits	80,622	99,207
Total other liabilities	117,504	310,762
Total amounts due to customers	34,031,947	31,764,349

31. Provisions

<i>PLN'000</i>	31.12.2016	31.12.2015
Litigation	3,823	10,522
Granted financial and guarantee commitments	7,215	10,451
Workforce restructuring	3,383	-
Restructuring of the branch network	7,647	1,841
Provisions, total	22,068	22,814

The movement in provisions is as follows:

<i>PLN'000</i>	2016	2015
As at 1 January	22,814	26,188
Provisions for:		
Litigation	10,522	9,571
Granted financial and guarantee commitments	10,451	13,238
Workforce restructuring	-	-
Restructuring of the branches network	1,841	3,379
Increases:		
Charges to provisions in the period:	35,406	43,789
litigation	1,571	16,524
granted financial and guarantee commitments	17,913	25,956
workforce restructuring	3,948	-
restructuring of the branch network	11,974	1,309
Decreases:		
Release of provisions in the period:	(27,088)	(30,369)
litigation	(4,962)	(926)

PLN'000	2016	2015
granted financial and guarantee commitments	(21,149)	(28,743)
restructuring of the branch network	(977)	(700)
Provisions used in the period, including:	(9,064)	(16,794)
litigation	(3,308)	(14,647)
workforce restructuring	(565)	-
restructuring of the branch network	(5,191)	(2,147)
As at 31 December	22,068	22,814

32. Other liabilities

PLN'000	31.12.2016	31.12.2015
Staff benefits	43,812	48,198
Interbank settlements	145,536	95,534
Settlements with Tax Office and National Insurance (ZUS)	718	-
Sundry creditors	24,637	17,435
Accruals, including:	143,652	115,229
Provision for employee payments	282,629	289,693
Provision for employee retirement payments	89,439	100,874
Provision for employee jubilee payments	40,290	36,672
IT services and bank operations support	62,098	78,841
Consultancy services and business support	24,091	21,942
Other	66,711	51,364
Deferred income	23,585	24,551
Other liabilities, total	664,569	590,640
Including financial liabilities*	616,347	548,654

* 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 2016

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	587,150	381,285	205,865	-	-	-
Financial assets held-for-trading							
Debt securities held-for-trading	19	2,605,028	313,250	-	246,232	1,492,755	552,791
Financial assets available-for-sale							
Debt securities available-for-sale	21	19,072,371	2,239,715	-	-	15,163,320	1,669,336
Amounts due from customers (gross)							
Amounts due from financial sector entities	23	1,653,137	198,137	70,000	185,000	1,200,000	-
Amounts due from non-financial sector entities	23	17,701,421	6,798,322	1,227,233	2,057,996	5,556,584	2,061,286
Amounts due to banks	29	2,303,627	2,140,199	20,897	27,628	114,903	-
Amounts due to customers							
Amounts due to financial sector entities	30	4,895,202	4,849,610	41,959	3,633	-	-
Amounts due to non-financial sector entities	30	29,136,745	28,151,169	706,906	261,019	17,651	-

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

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
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	-

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			

The par value of 1 share amounts to PLN 4.00

As at 31 December 2016, 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 2015.

The Bank has not issued preferred shares.

Both in 2016 and 2015 there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2016 and 31 December 2015, held at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital:

	Value of shares (PLN'000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	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 2016 and during the period from the publication of the previous interim quarterly report for Q3 2016 until the day of the publication of this annual unconsolidated financial statements for 2016, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2016, supplementary capital was PLN 2,944,585 thousand (31 December 2015: PLN 2,944,585 thousand). Supplementary capital is designated for offsetting the Bank's financial losses or for other purposes including payment of dividends to the shareholders. The General Shareholders' Meeting decides upon the utilization of supplementary capital, but a portion of its balance amounting to one third of total share capital may be used exclusively for offsetting losses shown in the financial statements.

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

Revaluation reserve

PLN'000	31.12.2016	31.12.2015
Revaluation of financial assets available-for-sale	(215,061)	(163,809)

The revaluation reserve is not distributed. As at the day of derecognition of all or part of the 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	31.12.2016	31.12.2015
Reserve capital	2,343,335	2,342,595
General risk reserve	529,000	521,000
Net actuarial losses on specific services program valuation	(4,770)	(4,770)
Other reserves, total	2,867,565	2,858,825

On 21 June 2016 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2015, deciding to appropriate the amount of PLN 740 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 2015

At the meeting on June 21, 2016, 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 2015. The WZ resolved to appropriate the amount of PLN 611,486,928.00 to 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 4, 2016 (day of dividend) and the day of the dividend payment for July 21, 2016 (day of the dividend payment).

Declared dividends

On 14 March 2017, the Bank's Management Board adopted a resolution on the proposed distribution of profit for 2016. The Bank's Management Board has proposed to allocate the amount of PLN 591,887,988.00 for the dividend payment. The dividend has a cash character. This means that the dividend per share amounts to PLN 4.53. The number of shares covered by dividends is 130,659,600. The dividend record date was designated as 3 July 2017 and the dividend payment date was designated as 20 July 2017. This proposal of the Bank's Management Board will be submitted to the Supervisory Board for an opinion and then to the General Shareholders' Meeting for approval.

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 2016, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities held for trading	212 143	212 372	Up to 1 week	212 397
*including interest				

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				

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

As at 31 December 2016 and 31 December 2015, assets sold through repo cannot be further traded.

In 2016, the total interest expense on repurchase agreements was PLN 6,495 thousand (in 2015: PLN 7,158 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 2016, 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	212,361	207,952	Up to 1 week	212,377
	205,922	181,933	Up to 3 months	178,886
*including interest				

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 2016 and 31 December 2015, the Bank held the option to pledge or sell the assets acquired through reverse repo.

In 2016, the total interest income on reverse repurchase agreements was PLN 10,522 thousand (in 2015: PLN 36,175 thousand).

As at 31 December 2016 the liabilities due to short sale of securities purchased in reverse repo transactions amounted to PLN 208,106 thousand (as at 31 December 2015: PLN 988,102 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 master agreements such as ISDA, the Master Agreement recommended by the Polish Banks' Union, and other master agreements, under which, in certain breaches of the contracts' provisions, the contract may be terminated and settled in the net amount of receivables and liabilities, where such offsetting has been recognized as legal effective.

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

PLN'000	31.12.2016		31.12.2015	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	1,239,184	1,173,839	2,172,436	2,184,726
Value of collateral received/placed	(286,475)	(208,094)	(94,442)	(220,020)
Assets and liabilities subject to offsetting under the master agreement	952,709	965,745	2,077,994	1,964,706
Maximum amount of potential offset	(680,079)	(680,079)	(1,913,847)	(1,913,847)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	272,630	285,666	164,147	50,859

37. Hedge accounting

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

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

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

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

Fair value of instruments within fair value hedge accounting of securities

PLN'000	31.12.2016		31.12.2015	
	Nominal value	Fair value	Nominal value	Fair value
Hedged instruments				
Debt securities available-for-sale				
Treasury bonds	4,604,396	4,794,696	4,431,015	4,657,996
Hedging instruments				
Derivative instruments				
Interest rate swaps – negative valuation	2,431,660	12,244	780,220	1,795
Interest rate swaps – negative valuation	2,172,736	39,897	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 2016

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	-	665,755	-	-	665,755	665,755
Amounts due from banks	18	-	586,973	-	-	586,973	586,957
Financial assets held-for-trading	19	3,772,162	-	-	-	3,772,162	3,772,162
Hedging derivatives	20	12,244	-	-	-	12,244	12,244
Debt securities available-for-sale	21	-	-	19,072,371	-	19,072,371	19,072,371

Annual Financial Statements of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2016

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets / liabilities	Total carrying value	Fair value
Equity investment	22	-	-	22,562	102,545	125,107	193,334
Amounts due from customers	23	-	18,795,341	-	-	18,795,341	18,813,995
		3,784,406	20,048,069	19,094,933	102,545	43,029,953	43,116,818
Financial liabilities							
Amounts due to banks	29	-	-	-	2,303,627	2,303,627	2,303,661
Financial liabilities held-for-trading	19	1,305,614	-	-	-	1,305,614	1,305,614
Hedging derivatives	20	39,897	-	-	-	39,897	39,897
Amounts due to customers	30	-	-	-	34,031,947	34,031,947	34,031,387
		1,345,511	-	-	36,335,574	37,681,085	37,680,559

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		1,795	-	-	-	1,795	1,795
Debt securities available-for-sale	21	-	-	18,351,259	-	18,351,259	18,351,259
Equity investments	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		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

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

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

In 2016, 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 2016

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	19	2,604,546	1,167,616	-	3,772,162
derivatives		-	1,167,134	-	1,167,134
debt securities		2,604,546	482	-	2,605,028
Hedging derivatives	20	-	12,244	-	12,244
Debt securities available-for-sale	21	16,766,272	2,306,099	-	19,072,371
Equity investments available-for-sale	22	838	-	18,965	19,803
Financial liabilities					
Financial liabilities held-for-trading	19	208,305	1,097,309	-	1,305,614
short sale of securities		208,106	-	-	208,106
derivatives		199	1,097,309	-	1,097,508
Hedging derivatives	20	-	39,897	-	39,897

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
short sale of securities		988,102	-	-	988,102
derivatives		383	2,259,038	-	2,259,421
Hedging derivatives	20	-	112,383	-	112,383

On the 31st of December 2016 the amount of financial assets classified to the Level III includes the share of PLN 18,965 thousand in Visa Inc. As at 31 December 2015 the amount includes value of the share in Visa Europe Limited in amount PLN 63,323 thousands.

In the first half of 2016 the Management Board of Bank Handlowy w Warszawie S.A. has received the information regarding final allocation of settlement transactions of the Visa Europe Limited takeover by Visa Inc. As a settlement transaction results Bank dispose its shareholding in Visa Europe Limited and received:

- (a) 15,838,604.03 EUR in cash;
- (b) 5,751 preference shares Visa Inc. Serie C;
- (c) deferred payments paid after 3 years from the final transaction date.

Amount of deferred payments for Bank will be proportion to the Bank shares in whole payment amount at final transaction date will be 0.1220725995% in amounts of: EUR 1,220,726.00 (part of capital deferred payment) and EUR 152,424.73 (part of interest deferred payment).

Net value share after discount including as at 31 December 2016 is PLN 18,965 thousands.

In 2016, 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	1.01.-31.12.2016	1.01.-31.12.2015
	Financial assets available-for-sale	Financial assets available-for-sale
	Equity investments	Equity investments
As at January 2016	63,323	-
Derecognition valuation of shares	(63,323)	-
Recognition of valuation of shares	17,355	63,323
Valuation of shares	1,610	-
As at December 2016	18,965	63,323

In a final allocation of settlement transaction overtaking Visa Europe Limited by Visa Inc. In 2016 Bank recognize results on share sale and minority interest (AFS) in amount of PLN 92,975 which comprises cash received, deferred payment paid after 3 years from transaction date and valuation of preference shares Visa Inc.

In 2016 and 2015, 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 2016, among all equity investments, where fair value could not be established, the Group sold the shares in Odlewnie Polskie S.A. The carrying/book value of sold shares in Odlewnie Polskie S.A. amounted to PLN 656 thousands and the profit of sales to PLN 2,938 thousands.

In 2015, among all equity investments, where fair value could not be established, the Group 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 and the profit on sales to PLN 2,232 thousand.

Amounts due from customers and banks

The carrying amount of loans is presented at amortized cost less impairment. The fair value of loans and advances is calculated as the discounted value of expected future principal payments and takes into account fluctuations in market interest rates as well as changes in margins during the financial period. Changes in margins on loans are based on concluded transactions. It is assumed that loans and advances will be paid on the contractual date. 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 mentioned above are classified to the third of the level fair value financial hierarchy: assets valued on the basis of valuation techniques using relevant parameters not market-based.

Amounts due to banks and customers

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

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 2016, 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 2016.

Total value of liabilities of the Bank and its subsidiaries on all pending legal proceedings did not exceed 10% of the Bank's equity in 2016.

2016 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 2016, the Bank was among others a party to 18 court proceedings associated directly with derivative transactions that have not been legally terminated: in 12 proceedings the Bank acted as a defendant and in 6 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 2016 three cases ended legally binding and in favour of the Bank, regarding term financial transactions, where the Bank was defendant or plaintiff.

2016 The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressees of the President of UOKiK's decision in the case. The proceedings have concerned alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was the subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set in the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. The verdict is binding and enforceable. On April 28, 2016 the Bank has submitted extraordinary appeal to the Supreme Court, the Bank is awaiting for their considerations.

In 2016 there were no significant settlements due to the court case with final judgement.

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	31.12.2016	31.12.2015
Financial and guarantees liabilities granted		
Letters of credit	145,852	160,400
Guarantees granted	2,131,868	2,101,477
Credit lines granted	13,382,369	14,766,203
Underwriting other issuers' securities issues	1,246,100	1,138,000
	16,906,189	18,166,080

PLN'000	31.12.2016	31.12.2015
Letters of credit by category		
Import letters of credit issued	144,829	160,065
Export letters of credit confirmed	1,023	335
	145,852	160,400

The Bank makes provisions for granted financial and guarantees commitments. As at 31 December 2016, the provisions created financial and guarantees commitments amounted to PLN 7,215 thousand (31 December 2015: PLN 10,451 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	31.12.2016	31.12.2015
Financial and guarantees liabilities received		
Finance	-	-
Guarantees	18,125,921	15,470,264
	18,125,921	15,470,264

40. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2016	31.12.2015
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	212,372	1,623,456
liabilities on credit received	114,903	143,903
Amounts due to customers		
securities sale and repurchase agreements	-	188,505
	327,275	1,955,864

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

PLN'000	31.12.2016	31.12.2015
Assets pledged		
Debt securities held-for-trading	212,143	186,373
Debt securities available-for-sale	336,624	1,943,149
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market transactions	159,169	286,641
Amounts due from customers		
Stock market trading guarantee funds and settlements	160,349	119,047
	868,285	2,535,210

As at 31 December 2016, 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 183,022 thousand (31 December 2015: PLN 208,791 thousand), the collateral against loan received in the amount of PLN 153,602 thousand (31 December 2015: PLN 274,272 thousand) and the collateral against securities sold with repurchase agreement in the amount PLN 1,460,086 thousand.

Debt securities held-for-trading as at 31 December 2016 constitute collateral of the Bank's obligations under securities sold with a repurchase agreement.

For more details on assets covering the Bank's obligations under repo transactions, see Note 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 2016, the Bank maintained over 9.2 thousand securities accounts (31 December 2015: approx. 10.8 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	31.12.2016	31.12.2015
Less than 1 year	7,047	32,063
Between 1 and 5 years	57,859	65,872
More than 5 years	19,096	11,533
	84,002	109,468
Total annual rentals for contracts for an unspecified period of time	683	2 312

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 2016 amounted to PLN 29,646 thousand (in 2015: PLN 34,606 thousand).

The car leases are signed for 4 years. Lease payments are based on a fixed interest rate throughout the lease period. In 2016, total amount of leasing fees amounted to PLN 6,812 thousand (in 2015: PLN 6,997 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	31.12.2016	31.12.2015
Less than 1 year	296	1,864
Between 1 and 5 years	5,403	1,926
Between 1 and 5 years	6,163	-
	11,862	3,790
Total annual rentals for contracts for an unspecified period of time	7,826	9,686

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 years. Lease payments are subject to annual indexation. The income related to these contracts amounted in 2016 to PLN 9,935 thousand (in 2015: PLN 10,109 thousand).

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

43. Cash flow statement

Cash

PLN'000	31.12.2016	31.12.2015
Cash related items:		
Cash in hand	380,757	477,105
Nostro current account in Central Bank	283,587	1,693,132
Current accounts in other banks (nostro, overdrafts on loro accounts)	8,410	183,871
	672,754	2,354,108

44. Transactions with the key management personnel

PLN'000	31.12.2016		31.12.2015	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	719	-	1,103	-
Deposits				
Current accounts	10,078	4,216	4,000	4,481
Term deposits	5,227	1,000	10,989	8,062
	15,305	5,216	14,989	12,543

As at 31 December 2016 and 31 December 2015, no loans or guarantees were granted to members of the Management Board or the Supervisory Board.

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

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

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

above, the Bank will be obliged to pay compensation to the member of the Management Board.

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	31.12.2016	31.12.2015
Receivables		
Overdraft facilities	5	5
	5	5
Receivables		
Opening balance	5	680
Closing balance	5	5
Deposits		
Current accounts	55,279	24,235
Term deposits	201,314	262,660
	256,593	286,895
Deposits		
Opening balance	286,895	261,462
Closing balance	256,593	286,895
Contingent liabilities granted		
Credit lines granted	50,968	148,077
PLN'000	31.12.2016	31.12.2015
Interest and commission income	9,979	4,035
Interest and commission expenses	2,918	12,516

As at 31 December 2016 and 31 December 2015, no receivables or contingent liabilities granted to subsidiaries were subject to impairment write-offs.

In the first half of 2016 there was a reduction of the share capital in the Bank's subsidiaries. The share capital of the Handlowy Leasing Sp. z o.o. was reduced by PLN 106,991 thousand and the share capital of the Handlowy Investments S.A. was reduced by PLN 24,090 thousand.

Transactions with other related entities

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

PLN'000	31.12.2016	31.12.2015
Receivables, including:	89,369	150,747
Placements	-	-
Liabilities, including:	1,184,307	4,234,852
Deposits	204,911	3,763,867
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	823,853	1,337,826
Assets of derivative hedging instruments	11,912	1,795

PLN'000	31.12.2016	31.12.2015
Liabilities held-for-trading	669,388	1,307,730
Liabilities due to hedging derivatives	26,482	90,464
Contingent liabilities granted	264,347	287,814
Contingent liabilities received	68,290	103,458
Contingent transactions in derivative instruments (nominal value), including:	77,856,118	96,302,028,
Interest rate instruments	68,946,263	79,711,721
FRA	14,745,600	12,641,270
Interest rate swaps (IRS)	33,717,144	45,355,519
Currency – interest rate swaps (CIRS)	19,310,382	20,628,005
Interest rate options	1,085,269	172,638
Futures contracts	87,868	914,289
Currency instruments	8,439,712	15,964,479
FX forward/spot	1,215,512	1,229,628
FX swap	4,549,027	10,916,585
Foreign exchange options	2,675,173	3,818,266
Securities transactions	195,488	184,842
Securities purchased pending delivery	102,785	93,569
Securities sold pending delivery	92,703	91,273
Commodity transactions	274,655	440,986
Swaps	208,760	406,492
Options	65,895	34,494

PLN'000	31.12.2016	31.12.2015
Interest and commission income	36,807	47,291
Interest and commission expense	64,824	61,438

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 2016 amounted to PLN 139,895 thousand (as at 31 December 2015: PLN (58,573) thousand). The Bank runs a compression of derivative transaction portfolios' periodically. It is one of the risk-mitigation technique recommended by "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulations this in particular applies to the portfolios exceeding 500 derivative transactions.

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

The costs arising and accrued (including VAT, reflected in the Bank's costs) under concluded agreements in 2016 and 2015 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	2016	2015
General administrative expenses	174,247	185,013
Other operating income	11,818	12,002

In 2016 capitalization of investment regarding functionality modification of Bank's IT systems took place. Total payments for Citigroup entities amounted to PLN 11,229 thousand (in 2015: PLN 11,301 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 to 7%. The additional contribution – voluntary, is paid by an employee – the Plan participant. The minimum amount of the monthly additional contribution is PLN 10,00 and the maximum amount of the additional contribution is limited to the amount resulting from Announcement of Minister of Labour and Social Policy regarding value of corresponding sum of additional contributions made by participant Plan in concerned year, based on articles 25 item 4a Act of 20 April 2004 regarding employee pension plan (Journal of Law of 2014 position 710 and 2015 position 1844).. 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, item 416 with amendments).

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

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

- other long-term employee benefits – jubilee and other long service awards and deferred cash award. Information about jubilee awards is described in Note 2. Information on jubilee awards paid to employees is presented in Note 2. From 1 of January 2015, employees with long-term work-experience (10, 20, 30 years etc.) are entitled to rewards in kind;
- employee equity benefits – in the form of 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:

<i>PLN'000</i>	31.12.2016	31.12.2015
Provision for remuneration	59,103	62,126
Provision for unused leave	13,864	18,732
Provision for employees' retirement and pension allowances	40,290	36,672
Provisions for employees' jubilee payments	16,472	20,016
Provision for employees' equity compensation	3,383	-
	133,112	137,546

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%.

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

<i>PLN'000</i>	2016		2015	
	Provision for retirement and pension allowances	Provision for jubilee payments	Provision for retirement and pension allowances	Provision for jubilee payments
As at 1 January	36,672	-	39,319	268
Increases (due to):	5,944	-	3,424	-

PLN'000	2016		2015	
	Provision for retirement and pension allowances	Provision for jubilee payments	Provision for retirement and pension allowances	Provision for jubilee payments
Actuarial profit/loss of revaluation	-	-	(1,093)	-
Including those resulting from:				
Change of economic assumptions	-	-	(1,093)	-
Change of demographic assumptions	-	-	-	-
Salary expenses	-	-	3,382	-
Interest expenses	-	-	1,135	-
Establishment of provisions	5,944	-	-	-
Decreases (due to):	(2,326)	-	(6,071)	(268)
Cost of past employment	-	-	(3,680)	-
Provisions utilisation	(2,326)	-	(2,391)	(268)
Reversal of provisions	-	-	-	-
As at 31 December	40,290	-	36,672	-

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

In 2016, the Bank's expenses in respect of premiums for the employee pension plan amounted to PLN 24,003 thousand (in 2015: PLN 24,580 thousand).

Employment at the Bank:

FTEs	2016	2015
Average employment during the year	3,730	4,095
Employment at the end of the year	3,587	3,933

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) and the phantom shares of Bank Handlowy w Warszawie S.A. are offered to selected employees.

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. "Deferred shares" within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. "Deferred shares" give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. "Deferred shares" are converted into stocks after the end of a period that is determined in the Program Rules. As a general rule, the employee has a right to options revoked at the moment of employment termination in the Citigroup, provided the termination of said contract „Capital Accumulation Program – Prospectus” for granted options. Deferred shares granted in 2012-2015 will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

The 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 the 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	20 of January 2014 20 of January 2015 18 of January 2016 16 of January 2017
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	At least 6, 18, 30 and 42 months after grant date
Vesting date	At least 6, 12, 24 and 36 months after grant date

Variable Remuneration – Phantom shares

Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Group in 2014-2017 in relation to the award from 2014, and in 2015-2018 in relation to the award from 2015 and in 2016-2019 and in relation to 2016 reward and in 2017-2020 in respect of reward from 2017.
Program settlement	At the settlement date the participants will get an amount of cash being the product held by a participant phantom shares and the arithmetic mean of the lowest and highest prices of shares of the Bank notified on WSE at the maturity date. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

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

Variable Remuneration – Deferred Cash Award

Transaction as per IFRS	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	20 of January 2014 20 of January 2015 18 of January 2016 16 of January 2017
Granted amount	The amount was settled on the Deferred Cash Award grant date
Date of maturity	At least 18, 30 and 42 months after grant date
Vesting date	At least 12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on Bank results, individual performance of the employee and employment in the Group in 2014-2017 in relation to the award from 2014, and in 2015-2018 in relation to the award from 2015 and in 2016-2019 in relation to the award from 2016 reward and in 2017-2020 in relation to the award from 2017.
Program settlement	At the settlement date the participants will get an amount of Deferred Cash tranche with interest counted for the deferral period till the payment date. The interest rate was approved by the Resolution of the Supervisory Board in January 2014, 2015, 2016 and 2017. 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 a policy for the remuneration of key persons in the Bank Handlowy w Warszawie S.A. specifying rules of payment for the members of the Board and other persons performing key functions, including persons with a significant influence over the Bank's risk profile. This policy implements the provisions related to formulation of the remuneration principles in banks in accordance with legal regulations, Principles of Institutional Governance Rules for Supervised Institution adopted by the Polish Financial Supervision Authority and Best Practices of WSE 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:

CAP Program	Grant date	Exercise price / stock price at grant date [USD]	Number of eligible employees	Number of options / shares
1	19.02.2013	43.93	7	1,190
2	18.02.2014	49.66	7	2,725
3	16.02.2015	50.07	1	336

Phantom Shares Program	Grant Date	Exercise price / stock price at grant date [PLN]	Number of eligible employees	Number of options / shares
1	20.01.2014	104.86	20	19,848
2	20.01.2015	103.98	31	38,590
3	18.01.2016	72.21	47	60,051

	CAP Program	Phantom Shares Program
Period to acquire the title (in years)	25% after each of the following years	40% after 0.5 of a year and 20% after each of the following years or 60% after 0.5 of a year and 13.33% after each of the following years
Expected average life cycle of the instrument	At the time of rights acquisition	At the time of rights acquisition
Probability of premature termination of employment (annual staff turnover for awarded employees)	6.67%	6.67%
Fair value of one instrument* (in USD)	60.04 (USD)	75.78 (PLN)

*Varies depending on the date of exercise

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

	31.12.2016		31.12.2015	
	Number	Weighted average share price [USD]	Number	Weighted average share price [USD]
At the beginning of the period	24,107	39.33	50,429	40.47
Allocated in the period	-	-	448	50.07
Transfers	-	-	3,250	43.89
Redeemed/expired in the period	19,856	-	30,020	-
At the end of the period	4,251	48.09	24,107	39.33

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

	31.12.2016		31.12.2015	
	Number	Weighted average share price [PLN]	Number	Weighted average share price [PLN]
At the beginning of the period	131,687	102.19	127,756	100.15
Allocated in the period	131,042	72.21	112,155	103.98
Executed in the period	144,240	69.05	108,224	91.86
At the end of the period	118,489	88.03	131,687	102.19

On 31 December 2016, the book value of liabilities from the phantom share and CAP programs amounted to PLN 28,402 thousand (31 December 2015: PLN 29,187 thousand). The costs recognized in this respect in 2016 amounted to PLN 8,319 thousand (in 2015: 10,215 thousand, including SOP costs).

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

The concept of risk management, taking into account the shared responsibility, is based on model of three lines of defense i.e.:

- Business Units engaged in activities connected with risk taking,
- Risk Units that establish standards for the risk management, processes defining and methodological support, risk acceptance as well as valuation, mitigation, control, monitoring and reporting of risk and Compliance,
- Internal Audit that provide an independent assessment of risk management processes and performance in the process control/control efficiency of these processes.

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

- approving a strategy of the Bank's activity and the rules of prudent and stable risk management, including operational risk strategy;

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

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

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

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

and is responsible for the development, implementation and updating of written policies, strategies and procedures for risk management, internal control system and internal capital assessment and review process as well as internal capital and policy related to variable components of remuneration.

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).

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

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

In the risk management area there are following Committees:

- Assets and Liabilities Management Committee,
- Risk and Capital Management Committee, including Operational Risk, Control and Compliance Commissions (BRCC)
- Risk Committee of Retail (Consumer) Banking Sector.

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

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

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

- obligor and exposure credit risk assessment;
- credit, market and operational risk measurement, reporting and monitoring;
- monitoring and reporting of collateral;
- calculation and reporting of impairment-write-offs.

Significant Risks

The Bank manages all significant risks arising from the implementation of its business strategy. In the process of significant risks identification in 2016, the Management Board considered the following type of risk as significant:

- Credit risk and counterparty risk,
- Liquidity risk
- Market risk in the trading book,
- Interest rate risk in the banking book,
- Operational risk
- Compliance risk

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

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

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

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

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

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

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

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

CREDIT RISK

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

Principles of the Credit Risk Management Policy

The Risk Management unit is responsible for establishing the principles of the Credit Policy for the Corporate Bank, the Credit Policy for the Commercial Bank and credit policies for the Consumer Bank as well as approving other policies 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.

According to Bank activity, credit portfolio is divided by management process into two categories:

- credit exposures of clients managed on the classifiable basis (individual assessment)
- credit exposures of clients managed on delinquency basis (portfolio assessment).

Eligibility for either portfolio is managed based on classification (individual assessment) or delinquency (portfolio assessment) depends on the amount of aggregate exposure to the customer or group. In specific circumstances, each exposure might be managed on classifiable basis.

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

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

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

Credit risk in this area is managed by means of:

- detailed credit policies which define the credit scoring rules;
- a system for allocation of credit authority and independent supervision of the quality of credit analyst performance;
- a system of monitoring the quality of IT tools supporting credit scoring;
- a system of risk measurement and control for credit portfolios including: a detailed management information system covering the quality of the credit portfolio and debt collection, identification of impaired exposures, monitoring of delinquencies, monitoring of benchmarks, etc., internal limits of credit portfolio parameters approved by the Management Board;
- debt collection policy rules approved by the Management Board as well as a fraud prevention policy and a credit and debit card transaction authorization policy;
- credit portfolio quality reports to the GCB Risk 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: cyclicity, 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 a facility level, which may include one or more contracts, disposals or transactions;
- At an obligor level, if there are multiple facilities approved for an obligor where the risk associated with an obligor default can be assessed;
- At a group level, considering the group structure of connected clients;
- At a portfolio level where Portfolio Risk Rating is calculated as the average rating of individual facility exposure ratings weighted with the size of exposure.

In case of the amount of exposure, the measurement 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 the case of a 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 a customer level includes periodic control reports, an early warning system and periodic reviews of the customer's standing.

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

In addition to various management information reports analysis, risk managers and business representatives 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 the Bank's risk management processes. It is achieved as described below:

- Customers selection and credit confirmation:
 - Target market and customer selection criteria are determined;
 - Maximum credit exposure against the obligor is determined through obligor limits related to customer risk ratings and/or through risk acceptance criteria;
 - Limits are established and monitored in order to mitigate exposure concentration risk;
 - Robust credit due diligence standards are established and maintained;
 - Credit process standards are established in order to ensure a consistent approach to each segment;
 - 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 an early warning system are used;
- Regular inspection of portfolio ensuring identification of adverse tendencies and concentration;
- Active portfolio management includes implementation of necessary modifications to the credit strategy based on portfolio reviews or stress testing.

Policy of collateral acceptance

Apart from general rules of credit risk mitigation, the Bank has defined specific Corporate and Consumer rules of accepting, assessing, establishing and monitoring various types of collateral, including 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;
- the relationship of loan value to collateral value for each type of collateral;
- the desirable structure of the different types of collateral in the credit portfolio.

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

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

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

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

As at 31 December 2016, 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 46,874 thousand (31 December 2015: PLN 31,036 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

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

In its credit risk management, the Bank defines exposure concentration limits related to the maximum exposure (as per internal reporting):

- against one obligor (including CCP) or a group of connected clients; against particular industries (based on the Bank's internal classification);
- against entities in the same geographical region (country level - risk of geographical concentration)

- in a foreign currency;
- resulting from transactions generating counterparty credit risk (pre-settlement);
- against mortgage-secured exposures;
- against retail credit exposures of the Consumer Bank Risk Division.
- against entities belonging to the Capital Group of the Bank,
- particular products

General concentration limits are approved on the Management Board level and monitored according to relevant Policy rules, primarily by the Risk and Capital Management Committee. Credit Risk and Business managers define (where appropriate) detailed internal concentration limits, control and reporting frequency and rules of approval for excesses and corrective action plans. All excesses of the limits are reported for approval by competent persons or/and the Risk and Capital Management Committee and the Management Board.

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 a mortgage.

In addition to current concentration levels monitoring in accordance to set limits; Bank monitors also potential concentration resulting from indirect commitments – however in accordance with the 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 2016, 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 7,221,065 thousand, i.e., 153% of equity (31 December 2015: PLN 6,199,373 thousand, i.e., 131%). In 2016 and 2015 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	31.12.2016			31.12.2015		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
CLIENT 1	564,798	500,185	1,064,983	360,285	700,722	1,061,007
CLIENT 2	1,000,000	-	1,000,000	-	-	-
GROUP 3	115,751	763,725	879,476	120,987	791,637	912,624
CLIENT 4	316,900	433,100	750,000	500,000	250,000	750,000
GROUP 5	14	641,332	641,346	125,146	502,862	628,008
GROUP 6	396,000	205,445	601,445	3	601,358	601,361
CLIENT 7	600,000	-	600,000	700,000	-	700,000
GROUP 8	431,855	156,716	588,571	447,882	84,545	532,427
GROUP 9	531,149	53,370	584,519	158,540	55,057	213,597
GROUP 10	187,415	323,310	510,725	200,692	173,763	374,455
GROUP 11	-	-	-	419,442	94,426	513,868
CLIENT 12	-	-	-	-	500,078	500,078
CLIENT 13	-	-	-	450,000	-	450,000
Total	4,143,882	3,077,183	7,221,065	3,482,977	3,754,448	7,237,425

*Excluding investment in shares and other securities

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

As at 31 December 2016, 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 2016.

*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)*	31.12.2016		31.12.2015	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,122,906	17.3%	4,416,137	17.7%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,526,268	10.6%	2,661,946	10.7%
Financial intermediation, excluding insurance and pension funds	2,493,023	10.4%	1,939,633	7.8%
Retail trade, excluding retail trade in vehicles	1,313,366	5.5%	1,413,278	5.7%
Production of food and beverages	1,169,614	4.9%	1,290,045	5.2%
Metal ore mining	1,064,982	4.5%	1,061,007	4.3%
Production and processing of coke and petroleum products	936,473	3.9%	848,866	3.4%
Production of metal goods, excluding machines and equipment	615,380	2.6%	689,814	2.8%
Production of basic pharmaceutical substance, medicaments and other pharmaceutical products	600,599	2.5%	229,606	0.9%
Telecommunication	595,110	2.5%	438,956	1.8%
10 business sectors	15,437,721	64.7%	14,989,288	60.1%
Other sectors	8,430,655	35.3%	9,949,639	39.9%
Total	23,868,376	100.0%	24,938,927	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	31.12.2016	31.12.2015
Gross amounts due from economic entities and banks		
Financial	2,209,402	2,644,292
Production	4,391,227	4,303,842
Services	4,402,099	987,523
Other	2,242,082	5,811,926
	13,244,810	13,747,583
Gross amounts due from individual customers	6,696,898	6,436,390
(see Note 18, 23)	19,941,708	20,183,973

Management of impaired exposures

Credit exposures, with identified impairment or if there is a risk of impairment, are managed by specialized unit within Risk Management Sector. Depending on their economic or legal situation, Bank takes restructuring or collection actions, according to law.

Bank considers balance sheet credit exposure as impaired and related loss as recognized upon meeting the following two conditions:

- objective proofs (prerequisites) of impairment, arising out of one or more events, that occurred after initial balance sheet credit exposure recognition in financial books, have been identified and
- event (or events) causing the loss impacts future cash flow, associated with balance sheet credit exposure or out of group of balance sheet credit exposures, which can be reliably assessed.

The Bank identifies following events or evidences, which might result in impairment: credit exposure impairment:

- 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 and other events that may have a negative impact on future cash flows resulting from the balance sheet credit exposure.

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

Credit Risk Management employees regularly evaluate 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.

Level of impairment write-offs on classifiable exposures that are above materiality thresholds is reviewed monthly. 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 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 the 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:

<i>PLN'000</i>	<i>Note</i>	31.12.2016	31.12.2015
Receivables due from Central Bank	17	3,587	1,693,132
Gross receivables due from banks	18	587,150	758,609
Gross receivables due from institutional customers	23	12,657,660	12,988,974
Gross receivables due from individual customers	23	6,696,898	6,436,390
Debt securities held-for-trading	19	2,605,028	4,692,560
Derivative instruments	19	1,167,134	2,267,132
Hedging derivatives	20	12,244	1,795
Debt securities available-for-sale	21	19,072,371	18,351,259
Other financial assets	28	93,727	89,752
Contingent liabilities granted	39	16,906,189	18,166,080
		59,801,988	65,445,683

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

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

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

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

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

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

Commitment due to customers in terms of credit risk:

PLN'000	31.12.2016			31.12.2015		
	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
Impaired receivables						
Individual receivables						
Gross amount	297,092	11,873	-	327,772	11,349	-
Impairment write-off	245,864	6,232	-	284,332	5,523	-
Net amount	51,228	5,641	-	43,440	5,826	-
Portfolio receivables						
Gross amount	14,339	305,513	-	22,634	327,216	-
Impairment write-off	9,191	218,241	-	9,973	212,903	-
Net amount	5,148	87,272	-	12,661	114,313	-
Not impaired receivables						
by risk rating						
Risk rating 1-4-	9,084,789	-	580,537	9,545,252	-	591,134
Risk rating+ 5-6-	3,065,281	-	6,613	2,886,053	-	167,475
Risk rating+7 and greater	196,159	-	-	207,263	-	-
by delinquency						
no delinquency	-	6,098,826	-	-	5,847,281	-
1-30 days	-	233,240	-	-	202,475	-
31-90 days	-	47,446	-	-	48,069	-
Gross amount	12,346,229	6,379,512	587,150	12,638,568	6,097,825	758,609
Impairment	19,380	60,309	177	19,175	45,490	1,750
Net amount	12,326,849	6,319,203	586,973	12,619,393	6,052,335	756,859
Total net amount	12,383,225	6,412,116	586,973	12,675,494	6,172,474	756,859

PLN'000	31.12.2016			31.12.2015		
	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
Impairment write-offs for impaired receivables						
Impairment write-offs for individual receivables	245,864	6,232	-	284,332	5,523	-
Impairment write-offs for portfolio receivables	9,191	218,241	-	9,973	212,903	-

IBNR provisions

PLN'000	31.12.2016			31.12.2015		
	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
by risk rating						
Risk rating 1-4-	3,320	-	88	2,695	-	131
Risk rating+5-6-	8,983	-	89	9,840	-	1,619
Risk rating +7 and greater	7,077	-	-	6,640	-	-
by delinquency						
no delinquency	-	21,992	-	-	16,993	-
1-30 days	-	15,227	-	-	11,083	-
31-90 days	-	23,090	-	-	17,414	-
	19,380	60,309	177	19,175	45,490	1,750
Total impairment write-offs	274,435	284,782	177	313,480	263,916	1,750

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

PLN'000	31.12.2016	31.12.2015
Receivables due from individual customers not impaired and without delay in payment, including:	6,098,826	5,847,280
receivables at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days)	365,690	344,435
receivables at least once have exceeded 90 days of delay in payment	5,498	5,824

Receivables not impaired by delinquency:

PLN'000	31.12.2016			31.12.2015		
	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	12,332,619	6,098,826	587,150	12,601,969	5,847,280	758,609
Overdue receivables, including:	13,610	280,686	-	36,599	250,545	-
1-30 days	6,281	233,240	-	35,026	202,475	-
Gross amount	12,346,229	6,379,512	587,150	12,638,568	6,097,825	758,609

Structure of derivatives in terms of credit risk

PLN'000	31.12.2016			31.12.2015		
	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-	96,107	6,141	1,053,076	157,940	2,176	2,071,473
Risk rating+5-6-	14,650	-	8,242	14,696	-	21,581
Risk rating +7 and greater	1,162	-	-	1,061	-	-
Total	111,919	6,141	1,061,318	173,697	2,176	2,093,054

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	31.12.2016		31.12.2015	
	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)	2,605,028	19,072,371	4,330,816	18,351,259
BBB+	-	-	361,744	-
Total	2,605,028	19,072,371	4,692,560	18,351,259

Other financial assets in the amount of PLN 93,727 thousand at the end of 2016 (PLN 89,752 thousand at the end of 2015) include receivables with delinquency over 90 days in the amount of PLN 1,709 thousand (PLN 1,824 thousand at the end of 2015).

Structure of granted contingent liabilities in terms of credit risk:

<i>PLN'000</i>	31.12.2016		31.12.2015	
	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-	7,740,598	276,957	9,882,610	260,594
Risk rating+5-6-	2,828,993	9,024	2,342,319	5,531
Risk rating +7and greater	33,266	-	117,362	-
Total	10,602,857	285,981	12,342,291	266,125

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

<i>PLN'000</i>	31.12.2016	31.12.2015
Granted contingent liabilities due to individual customers, including:	6,017,351	5,557,664
contingent liabilities at least once have exceeded 30 days of delay in payment (but have not exceeded 90 days)	319,995	307,782
contingent liabilities at least once have exceeded 90 days of delay in payment	1,584	1,748

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

<i>PLN'000</i>	31.12.2016	31.12.2015
Gross amount		
Receivables with recognized impairment, including:	628,817	688,971
Individual receivables	308,965	339,121
Portfolio receivables	319,852	349,850
Receivables without recognized impairment	19,312,891	19,495,002
Total gross amount	19,941,708	20,183,973
Impairment write-offs		
Receivables with recognized impairment, including:	479,528	512,731
Individual receivables	252,096	289,855
Portfolio receivables	227,432	222,876
Receivables without recognized impairment	79,866	66,415
Impairment write-offs in total	559,394	579,146
Net amount		
Receivables with recognized impairment, including:	149,289	176,240
Individual receivables	56,869	49,266
Portfolio receivables	92,420	126,974
Receivables without recognized impairment	19,233,025	19,428,587
Total net amount	19,382,314	19,604,827
Ratio of impairment write-offs to receivables with recognized impairment	76.3%	74.4%

“Forbearance” practices

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

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 Bank 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 a total level, without further portfolio splits.

PLN'000	As of	
	31.12.2016	31.12.2015
Receivables without recognized impairment, including	18,725,741	18,736,393
non-financial sector entities	17,089,740	16,771,109
Institutional customers	10,710,228	10,673,284
Individual customers	6,379,512	6,097,825
Receivables with recognized impairment, including:	628,817	688,971
non-financial sector entities	611,681	671,835
Institutional customers, including:	294,295	333,270
„forborne”	78,766	74,991
Individual customers, including:	317,386	338,565
„forborne”	24,273	31,979
Total gross amount, including:	19,354,558	19,425,364
non-financial sector entities	17,701,421	17,442,944
Institutional customers, including:	11,004,523	11,006,554
„forborne”	78,766	74,991
Individual customers, including:	6,696,898	6,436,390
„forborne”	24,273	31,979
Impairment write-off	(559,217)	(577,396)
On „forborne” receivables	(56,959)	(62,073)
Total net amounts due from customers, including:	18,795,341	18,847,968
„forborne” receivables	46,080	44,897

“Forborne” exposures by period of overdue

PLN'000	As of	
	31.12.2016	31.12.2015
Not past due	49,435	54,634
Past due, including:	53,604	52,336
Past due less than 30 days	2,125	2,635
Past due 31 - 90 days	6,576	4,565
Past due over 90 days	44,903	45,136
Total gross amount	103,039	106,970

LIQUIDITY RISK

The processes and organization of liquidity risk management

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

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

Liquidity risk management is based on:

- Applicable law, in particular on the Banking Law;

- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
 - Rules of prudent and stable 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 the:

- 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.

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 facilities.

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 business plans, especially in the customer deposits and loans area, as defined in annual budgets of particular business entities, as well as any material changes in regulatory requirements and market dynamics.

Liquidity risk management tools

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

Internal liquidity risk management tools

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

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

Stress scenarios

Stress tests are intended to quantify the potential impact of an event on the Bank's balance sheet and cumulative gap over a 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 in stress conditions and the level of liquid assets as at 31 December 2016 and 31 December 2015.

The cumulative liquidity gap as at 31 December 2016 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	19,691,190	563,913	417,261	-	24,532,683
Liabilities and equity	7,899,170	4,190,501	57,424	46,014	33,011,938
Balance sheet gap in the period	11,792,020	(3,626,588)	359,837	(46,014)	(8,479,255)
Contingent derivatives transactions – inflows	10,159,711	3,370,020	6,341,294	4,169,771	17,095,176
Contingent derivatives transactions – outflows	10,123,268	3,346,658	6,365,283	4,227,780	17,276,599
Off-balance-sheet gap in the period	36,443	23,362	(23,989)	(58,009)	(181,423)
Potential use of the granted credit lines	696,104	1,351,335	-	-	(2,047,439)
Cumulative gap	11,132,359	6,177,798	6,513,646	6,409,623	(203,616)

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 derivative 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)

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

PLN'000	31.12.2016	31.12.2015	Change
Liquid assets, including:	22,190,847	24,951,511	(2,760,664)
nostro account in NBP and stable part of cash	513,448	1,907,692	(1,394,244)
debt securities held-for-trading	2,605,028	4,692,560	(2,087,532)
debt securities available-for-sale	19,072,371	18,351,259	721,112
Cumulative liquidity gap up to 1 year	6,513,646	6,198,927	314,719
Coverage of the gap with liquid assets	Positive gap	Positive gap	-

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 2016

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	2,303,628	2,140,200	20,897	27,628	114,903	-
Financial liabilities held-for-trading							
Short positions in financial assets	19	208,106	208,106	-	-	-	-
Amounts due to customers, including:	30	34,031,948	33,000,780	748,865	264,652	17,651	-
Deposits from financial sector entities	30	4,895,151	4,849,609	41,909	3,633	-	-
Deposits from non-financial sector entities	30	29,019,293	28,087,437	689,494	226,188	16,174	-
Other liabilities	30	117,504	63,734	17,462	34,831	1,477	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	750,866	27,175	38,182	121,727	365,330	198,452
Hedging derivatives	20	39,897	-	-	-	18,549	21,348
Unused credit lines liabilities	39	13,382,368	11,384,078	49,282	312,309	1,128,776	507,923
Guarantee lines	39	2,131,868	2,131,868	-	-	-	-
		52,848,681	48,892,207	857,226	726,316	1,645,209	727,723
Derivatives settled on a gross basis							
Inflows		40,526,382	10,536,899	3,070,489	6,175,871	10,721,726	10,021,397
Outflows		40,462,467	10,486,275	3,055,881	6,153,208	10,693,570	10,073,533
		63,915	50,624	14,608	22,663	28,156	(52,136)

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		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)

MARKET RISK**The processes and organization of market risk management**

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

The objective of market risk management is to ensure that the extent of risk accepted within the Bank corresponds to the level acceptable to the shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Bank.

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 the:

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

The bank portfolios include all other balance-sheet and off-balance-sheet positions not assigned to any of the trading portfolios. The transactions are executed to realize a profit over the entire contracted transaction period. The Bank's 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 to estimate the potential impact of a specific parallel shift in the interest rate curves on interest income from the bank portfolio before tax which can be earned in a specific period of time. This is a prospective indicator, equivalent to Factor Sensitivity of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time horizon of 10 years; however, for the purpose of current monitoring and limiting of interest rate risk positions in bank portfolios, the Bank normally applies IRE measures with one-year and five-year time horizons.

The table below presents the IRE measures for the Bank as at 31 December 2016 and 31 December 2015. 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	31.12.2016		31.12.2015	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	35,688	178,434	29,013	65,798
USD	17,212	36,974	(14,093)	(70,011)
EUR	(3,351)	(20,705)	14,009	18,329

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 concern the open positions in derivatives (i.e. interest rate swap transactions), carried out to hedge the fair value of the portfolio.

Hedge accounting program

In addition to the general rules limiting market risk, in particular, interest rate risk, the Bank has defined rules for the application of fair value hedge accounting. The main risk, which is hedged under hedge accounting is the risk of changes in interest rates resulting from holding portfolio of securities 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	31.12.2016			31.12.2015			Total in the period 1.01.2016 – 31.12.2016		
	Total	Securities	IRS	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(1,491)	(2,637)	1,146	(2,730)	(4,123)	1,393	(2,161)	(1,053)	(3,457)
USD	(49)	(358)	309	(933)	(1,365)	432	(290)	(48)	(955)
EUR	(430)	(430)	-	(208)	(208)	-	(572)	(208)	(808)

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 2016 are presented in the table below:

PLN'000	31.12.2016	31.12.2015	In the period 01.01.2016 – 31.12.2016		
			Average	Maximum	Minimum
PLN	267	(66)	126	870	(576)
EUR	(123)	(63)	(118)	85	(395)
USD	9	96	(28)	109	(106)

Average exposures to the interest rate risk in the local currency in 2016 was higher comparing to the level from the previous year and amounted to PLN 255 thousand. Average exposure to the interest rate risk in EUR were higher than in 2015 (DV01 amounted to PLN 126 thousand, compared to PLN 82 thousand in the previous year). Average exposure in EUR were lower as in 2015 (DV01 amounted to PLN 32 thousand, compared to PLN 63 thousand in 2015). The maximum exposure in PLN of the biggest exposures accepted by the Treasury Division was PLN 870 thousand compared to PLN 875 thousand in 2015 and the position in EUR amounted to PLN 395 thousand compared to PLN 411 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 2016:

PLN'000	31.12.2016	31.12.2015	In the period 1.01.2016 – 31.12.2016		
			Average	Maximum	Minimum
FX risk	287	96	958	6,600	24
Interest rate risk	6,280	4,147	5,673	17,443	1,631
Spread risk	5,046	4,576	3,656	6,507	296
Overall risk	8,333	6,061	7,210	18,737	3,493

The overall average level of the market risk of the trading portfolios was 17% lower in 2016 than the average level in 2015, representing an increase by over PLN 1,514 thousand, mainly as a result of lower exposures to interest rates. The maximum price risk level was PLN 18,737 thousand, compared to PLN 18,375 thousand in 2015.

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:

31.12.2016

PLN'000	Balance-sheet transactions		Contingent derivatives transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,157,017	4,538,578	17,289,321	15,769,761	137,999
USD	2,924,823	2,887,135	7,839,769	7,904,888	(27,431)
GBP	12,322	353,656	380,457	38651	472
CHF	302,186	147,687	1,422,369	1,579,560	(2,692)
Other currencies	1,821	266,477	1,833,809	1,569,944	(791)
	6,398,169	8,193,533	28,765,725	26,862,804	107,557

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

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)
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

OPERATIONAL RISK

Assumptions of the 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 the operational risk management process, the Bank takes into account business strategy, the 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, the operational risk management system is enhanced through implementation of crucial improvements.

The 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 the Audit Committee and Risk and Capital Management Committee based on synthetic reports submitted by the Management Board at least twice a year, determining the scale and types of operational risk that the Bank is exposed to, risk concentration areas, 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.

Operational risk definition

Operational Risk is the risk of loss resulting from inadequate or deficient 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, Staffing risk, concentration risk and conduct risk.

Rules of operational risk identification

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

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

Operational Risk Profile

Operational Risk Profile – scale and structure of exposure to operational risk, defining the level of exposure to operational risk, expressed in selected by the Bank structural measures (e.g. types of operational risk events, types of business lines, significant processes) and scale measures (e.g. assessed potential loss). The Bank defines its operational risk profile based on operational loss data and based on information gathered through utilized operational risk management tools.

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

Measurement and assessment

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

Risk tolerance framework, risk control and mitigation

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

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

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

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

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

Monitoring and reporting

The Risk and Capital Management Committee, 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 to inspections and assessment carried out by the internal audit.

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

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

Based on synthetic reports, presented periodically by the Management Board at least twice a year, prepared based on data resulting from operational risk monitoring, covering scale and types of operational risk the Bank is exposed to, risk concentration areas, the probability of its occurrence, the dimension of its possible negative impact, operational risk management principles and the operational risk profile, the Supervisory Board, supported by the Audit Committee and Risk and Capital Committee, monitors the effectiveness of internal control and risk management (in particular in relation to principles of operational risk management) and the Supervisory Board shall review the implementation by the Management of the strategy of operational risk management.

Assumptions of internal control of operational risk

Within the Management Board, one of its members – Risk Management Sector Head - supervises Independent Control and Operational Risk Department.

The Management Board is supported by 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 the case of identification of deficiency or an area of unacceptable risk, the management of the Business Unit is responsible for formulating a corrective action plan to resolve these deficiencies. Completion of corrective actions falls under independent monitoring and control.

The Audit Department (IA-Internal Audit) is responsible for independent assessment of the effectiveness of operational risk management processes and assessment of adequacy and effectiveness of operational risk management system, as well as for its regular reviews. Results of internal and external audits are considered in the management information system, the process of decision making with regard to risk management and management of the Bank.

EQUITY MANAGEMENT

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

The Bank's equity amounted to PLN 6,723,926 thousand as at 31 December 2016 (as at 31 December 2015: PLN 6,782,466 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial

Supervision Authority (KNF), amounted to PLN 4,727,393 thousand (as at 31 December 2015: PLN 4,719,986 thousand) Such a capital level is considered sufficient for conducting business activity. The capital level is regularly monitored by using the capital adequacy ratio.

In 2008, the Bank launched the process of estimating internal capital. The Bank identified significant risks and assessed the capital required for coverage of these risks.

The Bank determines a policy of future dividend payment to the shareholders as part of the capital management process. The dividend policy depends on a number of factors including the Bank's profits, the Bank's expectations concerning future financial results, the level of capital requirements, as well as tax, regulatory and legal issues.

Financial data necessary to calculate the Bank's capital adequacy ratio is presented in the table below:

Capital adequacy ratio*

PLN'000	31.12.2016	31.12.2015
I Common Equity Tier 1 Capital	4,727,393	4,719,986
II Total capital requirements, including:	2,204,888	2,252,301
credit risk capital requirements	1,698,683	1,706,398
counterparty risk capital requirements	65,487	78,682
Credit valuation correction capital requirements	63,927	34,059
excess concentration and large exposures risks capital requirements	3,176	17,542
total market risk capital requirements	74,245	84,287
operational risk capital requirements	299,370	331,333
Common Equity Tier 1 Capital ratio	17.2%	16.8%

*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 2016, as well as in 2015, the Bank complied with all the regulatory prudential standards on capital adequacy.

48. Subsequent events

On January 27th, 2017 the Bank placed the offer to purchase remaining performing leasing assets portfolio from Handlowy Leasing Sp. z o.o. The transaction will be executed with effect as of end of the first quarter 2017.

Signatures of Management Board Members

21.03.2017	Sławomir S. Sikora	President of the Management Board	
..... Date	..... Name	..... Position/function	..... Signature
21.03.2017	Maciej Kropidłowski	Vice-President of the Management Board	
..... Date	..... Name	..... Position/function	..... Signature
21.03.2017	David Mouillé	Vice-President of the Management Board	
..... Date	..... Name	..... Position/function	..... Signature
21.03.2017	Barbara Sobala	Vice-President of the Management Board	
..... Date	..... Name	..... Position/function	..... Signature
21.03.2017	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	
..... Date	..... Name	..... Position/function	..... Signature
21.03.2017	Katarzyna Majewska	Member of the Management Board	
..... Date	..... Name	..... Position/function	..... Signature
21.03.2017	Czesław Piasek	Member of the Management Board	
..... Date	..... Name	..... Position/function	..... Signature