EURO BANK SA

Financial Statements

for the year ended on 31 December 2016

EURO BANK SA

Financial Statements for the year ended on 31 December 2016

Approval of the annual financial statements

The Management Board ensured the preparation of the financial statements, so as to present a clear and fair view of the Bank's economic and financial position as well as its profit/loss and profitability as at 31 December 2016, in line with the International Financial Reporting Standards in the form adopted by the European Union (IFRS). The presented financial statements are annual financial statements.

Appropriate accounting principles were adopted during the preparation of the financial statements and were applied consistently. While measuring assets and liabilities as well as determining the financial result, the Bank was assumed to operate as a going concern in the foreseeable future. It does not intend to or is forced to discontinue or significantly alter the scope of its operations.

The statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements were prepared as required under IFRS and are presented herein in the following order:

The financial statements for the year ended on 31 December 2016 was approved by the Management Board on 21 February 2017 by way of Resolution of the Management Board no. DRA/42/2017.

These financial statements include 102 numbered pages.

First Vice-President of the Management Board Alexis Lacroix	Vice-President of the Management Board Marcin Ciszewski	Vice-President of the Management Board Radosław Księżopolski
Vice-President of the Management Board Mariusz Kaczmarek	Vice-President of the Management Board Jarosław Nowacki	Vice-President of the Management Board Wojciech Humiński

Responsible for keeping accounting books
Małgorzata Putek

Wrocław, 21 February 2017

STATEMENT OF COMPREHENSIVE INCOME

for the year ended on 31 December 2016

(PLN '000)	Note	2016	2015
Going concern business			
Interest income	3	842 099	795 097
Interest expense	4	(202 499)	(219 394)
Net interest income		**639 600**	**575 703**
Commission income	5	109 932	105 230
Fee and commission expense	6	(47 990)	(41 189)
Net commission income		**61 942**	**64 041**
Net income on financial operations	7	48 297	-
Foreign exchange result	8	3 147	2 262
Fair value adjusment result in hedge accounting		**(11 911)**	**-**
Net banking income		**741 075**	**642 006**
Other operating income	9	79 172	90 249
Other operating expense	10	(19 661)	(24 862)
Operating expenditure	11	(458 463)	(437 005)
Depreciation	12	(35 173)	(29 440)
Result on impairment losses	13	(126 722)	(73 291)
Gross result on operations		**180 228**	**167 657**
Gross profit (loss)		**180 228**	**167 657**
Income tax	14	**(38 246)**	**(33 213)**
Net profit (loss)		**141 982**	**134 444**
Other comprehensive income - items that may be reclassified to the profit and loss account		**(23 110)**	**30 106**
Net profit (loss) on revaluation of financial assets available for sale		(23 766)	24 332
- including deferred tax		5 576	(5 782)
Net profit (loss) on valuation of derivatives hedging cash flows and fair value (resulting from contracts not settled at the reporting date):	32	656	5 774
- including deferred tax		(154)	(1 354)
Items that cannot be reclassified to the profit and loss account		**-**	**-**
Total other comprehensive income		**(23 110)**	**30 106**
Total net comprehensive income		**118 872**	**164 550**

Discontinued operations
In years 2016 and 2015, Euro Bank S.A. did not carry out discontinued operations.

Notes presented on pages 10-102 constitute an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

(PLN '000)	Note	31.12.2016	31.12.2015
ASSETS			
Cash and balances with Central Bank	15	103 286	266 441
Amounts due from banks	16	132 793	127 694
Amounts due from customers	17	11 397 855	10 540 466
Available-for-sale financial assets	18	1 755 950	1 034 795
Fixed assets for sale		698	713
Derivative instruments in hedge accounting	23	8 023	
Intangible assets	19	47 006	45 182
Tangible fixed assets	20	66 527	73 573
Current income tax receivables		-	95
Deferred tax assets	21	158 774	178 200
Other assets	22	37 866	22 974
TOTAL ASSETS		**13 708 778**	**12 290 133**
LIABILITIES			
Amounts due to banks and financial institutions	24	4 379 814	4 401 563
Amounts due to customers	25	6 849 692	5 769 968
Amounts due to debt securities	26	490 350	240 459
Provisions	27	3 998	12 051
Derivative instruments in hedge accounting		-	11 130
Other liabilities	28	176 509	167 532
Current income tax liabilities		2 087	
Subordinated debt	29	331 191	331 165
Total liabilities		**12 233 641**	**10 933 868**
Share capital (funds)	30	563 096	563 096
Supplementary capital (funds)	31	770 782	636 338
Revaluation reserve	32	(723)	22 387
Net profit (loss)		141 982	134 444
Total equity		**1 475 137**	**1 356 265**
TOTAL LIABILITIES AND EQUITY		**13 708 778**	**12 290 133**

Notes presented on pages 10-102 constitute an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended on 31 December 2016

(PLN '000)	Note	Share capital (funds)	Supplementary capital (fund)	Revaluation reserve	Net profit (loss)	Total equity
01.01.2016		**563 096**	**636 338**	**22 387**	**134 444**	**1 356 265**
Allocation of profit for previous years	31	-	134 444	-	(134 444)	-
Net profit (loss) for period		-	-	-	141 982	141 982
Other net comprehensive income for period		-	-	(23 110)	-	(23 110)
Total income for period		**-**	**-**	**(723)**	**141 982**	**141 259**
31.12.2016		**563 096**	**770 782**	**(723)**	**141 982**	**1 475 137**

for the year ended on 31 December 2015

(PLN '000)	Note	Share capital (funds)	Supplementary capital (fund)	Revaluation reserve	Net profit (loss)	Total equity
01.01.2015		**563 096**	**401 598**	**(7 719)**	**234 739**	**1 191 714**
Allocation of profit for previous years	31	-	234 739	-	(234739)	-
Net profit (loss) for period		-	-	-	134 444	134 444
Other net comprehensive income for period		-	-	30 106	-	30 106
Rounding differences		-	1	-	-	1
Total income for period		**-**	**-**	**22 387**	**134 444**	**156 831**
31.12.2015		**563 096**	**636 338**	**22 387**	**134 444**	**1 356 265**

Notes presented on pages 10-102 constitute an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended on 31 December 2016

(PLN '000)	Note	2016	2015
NET OPERATING CASH FLOWS			
Gross profit (loss)		**180 228**	**167 657**
Total adjustments:		**(542 104)**	**(337 680)**
Depreciation	12	35 173	29 440
Foreign exchange profits/losses		-	-
Interest		12 180	12 937
(Profit) loss on investment activities		966	1 633
Change in the balance of available-for-sale financial assets		(750 497)	276 669
Change in the balance of available-for-sale fixed assets		-	(234)
Change in amounts due from banks		(255)	149 529
Change in amounts due from customers		(857 389)	(1 160 219)
Change in amounts due to banks		(21 750)	100 199
Change in amounts due to customers		1 079 724	208 482
Paid income tax		(11 434)	-
Change in other liabilities		8 976	4 362
Change in provisions		(8 051)	(12 986)
Change in other assets		(33 125)	40 975
Other adjustments		3 378	11 533
Net operating cash flows		**(361 876)**	**(170 023)**
NET CASH FLOWS ON INVESTMENT ACTIVITIES			
Income on investment activities		**-**	**-**
Expenses on investment activity		**(34 337)**	**(42 813)**
Expense on purchase of tangible fixed assets and intangible assets		(34 337)	(42 813)
NET CASH FLOWS ON INVESTMENT ACTIVITIES		**(34 337)**	**(42 813)**
NET FINANCIAL CASH FLOWS			
Income on financial activity		**250 000**	**240 000**
Inflows from the issue of debt securities	26	250 000	240 000
Expenses on financial activity		**(12 098)**	**(12 563)**
Other financial expenses (interest paid on the subordinated loan)		(12 098)	(12 563)
NET FINANCIAL CASH FLOWS		**237 902**	**227 437**
NET CASH FLOWS, TOTAL		**(158 311)**	**14 601**
CHANGE IN THE BALANCE OF CASH IN STATEMENT OF FINANCIAL POSITION		**(158 311)**	**14 601**
CASH AT THE BEGINNING OF THE PERIOD		**278 801**	**264 200**
CASH AT THE END OF THE PERIOD	42	**120 490**	**278 801**

Notes presented on pages 10-102 constitute an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION, ACCOUNTING POLICIES AND OTHER ESTIMATES

1. General information

The Financial Statements of Euro Bank S.A. cover the year ended on 31 December 2016 and contain comparative data for the year ended on 31 December 2015. All financial data are presented in PLN '000.
Euro Bank Spółka Akcyjna (formerly: Bank Społem SA, hereinafter referred to as "the Bank") was established in 1990. The Bank is organized in the form of a joint-stock company, and operates based on applicable provisions of the law, in particular on the provisions of the Banking Act, the Code of Commercial Companies and the Bank's Statute. The Bank has its seat in Wrocław at Św. Mikołaja St. 72.

Bank's business

The Bank's core business operations involve providing services to retail clients in the scope of granting cash loans, including credit cards, granting mortgage loans, acceptance of current account and term deposits as well as operating current accounts and offering insurance products of insurance companies. These operations are conducted through a nationwide network of bank branches opened during the period from September 2003 to December 2016. The Bank does not operate outside the territory of Poland. On 25 April 2013, the Bank obtained the license from the Polish Financial Supervision Authority to manage securitized claims of securitization funds.
The Bank has not benefited from public financial aid, in particular under the Act of 12 February 2009 on the provision of State Treasury support to financial institutions.

Indication of whether the Bank is a parent company or a significant investor, and whether it prepares consolidated financial statements

The financial statements include individual data. The Bank does not prepare consolidated financial statements. The direct parent company of the Bank is Societe Generale Consumer Finance S.A. with its registered office in Paris. The ultimate parent company is Societe Generale SA with its registered office in Paris. The consolidated statements of the Societe Generale Group are published on www.societegenerale.com.

Information about the Bank's Management Board and Supervisory Board

Composition of the Management Board as at 31 December 2016

• Alexis Lacroix	First Vice-President of the Management Board
• Jarosław Nowacki	Vice-President of the Management Board
• Wojciech Humiński	Vice-President of the Management Board
• Krystian Kulczycki	Vice-President of the Management Board
• Marcin Ciszewski	Vice-President of the Management Board
• Yves Arrouet	Vice-President of the Management Board

- Radosław Księżopolski Vice-President of the Management Board

In the course of the year ended on 31 December 2016, the composition of the Management Board changed as follows:

- On 8 July, 2016, Mr Arnaud Denis resigned from the function of the President of the Management Board of Euro Bank S.A., effective from 27 August, 2016.
- On 21 July, 2016, the Supervisory Board appointed Mr Alexis Lacroix to the position of the First Vice-President of the Management Board, effective from 1 September 2016. At the same time, the Supervisory Board designated Mr Alexis Lacroix as the candidate for the function of the President of the Management Board of Euro Bank S.A.
- On 13 December, 2016, Mr Yves Arrouet resigned from the function of a Management Board member, effective as of 31 January, 2017.
- On 13 December, 2016, the Supervisory Board appointed Mr Mariusz Kaczmarek into the composition of the Management Board, effective on 2 January, 2017.

Composition of the Supervisory Board as at 31 December 2016

- Giovanni Luca Soma Chairman
- Didier Hauguel Vice-Chairman
- Dominika Bettman SB Member
- Henri Bonnet SB Member
- Eric Delarue SB Member
- Krzysztof Jajuga SB Member
- Małgorzata Lubelska SB Member
- Sebastian Mikosz SB Member

In the course of the year ended on 31 December 2016, the composition of the Bank's Supervisory Board changed as follows:

- On 14 December, 2016, Mr Andre Sepaniak resigned from the functions of a member of the Supervisory Board.

Approvals of the financial statements

The Financial Statements for the year ended on 31 December 2015 were approved by the General Meeting on 21 June, 2016.

2. Summary of significant accounting policies and estimates and judgments

2.1. Compliance with accounting standards

The Bank's financial statements for the financial year ended on 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS) as at 31 December 2016.

The European Commission has adopted IAS 39 "Financial Instruments: Recognition and Measurement", except some provisions concerning hedge accounting. Due to the fact that the Bank applies IFRS as adopted by the European Union (EU), the Bank has applied the IAS 39 OS.99C in the form adopted by the EU, which allows to designate as a hedged item a portion of cash flows from variable rate deposits for which the effective interest rate is lower than the reference interest rate (not including margins). The IAS 39 as issued by the International Accounting Standards Board introduces limitations in that respect.

As at the date of approval of these statements for publication, taking into account the ongoing EU process regarding the introduction of IFRS standards and the Bank's activity, in terms the accounting principles applied by the Bank, except the above-mentioned "carve-out", there are no differences between the effective IFRS standards and the IFRS standards endorsed by the EU.

2.2. Going concern

The financial statements were drawn up on a going concern basis. As at the date of signing these financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continuing activity by the Bank for 12 months following the date of approval of the financial statements as a result of any intended or compulsory withdrawal or significant limitation in the activities of Bank.

2.3. Changes in accounting principles over the financial year

The Bank prepares the financial statements in accordance with the International Financial Reporting Standards as approved by the European Union.

The following are the published standards and interpretations that have been issued but are not yet effective, and have not been earlier applied:

- IFRS 9 Financial Instruments (published on 24 July 2014) – applicable to annual periods beginning on or after 1 January 2018,

- IFRS 14 Regulatory Deferral Accounts (published on 30 January 2014) – in accordance with the decision of the European Commission the approval process for the initial version of the standard will not be initiated before the release of the standard in the final version – not approved by the EU by the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2016,

- IFRS 15 Revenue from Contracts with Customers (published on 28 May 2014), covering amendments to IFRS 15. Date of entry into force of IFRS 15 (published on 11 September 2015) – applicable to annual periods beginning on or after 1 January 2018,

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (published on 11 September 2014) – the work leading to the approval of these amendments have been postponed indefinitely by the EU - the date of entry into force was deferred by IASB for an indefinite period,

- IFRS 16 Leases (published on 13 January 2016) - not approved by the EU by the date of approval of these financial statements - applicable to annual periods beginning on or after 1 January 2019,

- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (published on 12 September 2016) - not approved by the EU by the date of approval of these financial statements - applicable to annual periods beginning on or after 1 January 2018,

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (published on 19 January 2016) – not approved by the EU by the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2017,

- Amendments to IAS 7 Disclosure Initiative (published on 29 January 2016) – not approved by the EU by the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2017,

- Clarifications to IFRS 15 Revenue from Contracts with Customers (published on 12 April 2016) – not approved by the EU by the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2018,

- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (published on 20 June 2016) – not approved by the EU by the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2018,

- Amendments under review of IFRS 2014-2016 (published on 8 December 2016) – not approved by the EU by the date of approval of these financial statements – Amendments to IFRS 12 and IFRS 1 apply to annual periods beginning on or after 1 January 2017, while amendments to IAS 28 apply to annual periods beginning on or after 1 January 2018,

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (published on 8 December 2016) – not approved by the EU by the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2018,

- Amendments to IAS 40 Transfers of Investment Property (published on 8 December 2016) – not approved by the EU by the date of approval of these financial statements – applicable to annual periods beginning on or after 1 January 2018.

According to the Management Board, the above standards and interpretations would not have a significant effect on the accounting rules applied by the Bank within the initial period of their applicability, except for IFRS 9. The Bank is assessing the impact of IFRS 9 on its accounting rules. The description of the impact of IFRS 9 on the Bank's financial statements is presented in note 2.12.

2.4. Basis of preparation of the financial statements

The financial statements follow the historical cost basis, except for the fair value with respect to financial assets and liabilities measured at fair value through profit or loss, including derivatives, and available-for-sale financial assets, except for instances where the fair value could not be reliably estimated. Other financial assets and liabilities (including loans and advances) are disclosed at amortized cost less impairment loss or at cost less impairment loss.

Non-current assets are stated at acquisition cost less depreciation and impairment allowances. Non-current assets classified as held for sale are stated at the lower of the two amounts, i.e. their carrying value and the fair value less costs to sell.

2.5. Translation of items denominated in foreign currency

Transactions denominated in foreign currency are translated into PLN at the exchange rate applicable on the transaction date.

As at the balance sheet day, assets and liabilities denominated in foreign currencies are translated into the domestic currency (PLN) at the average exchange rate of the National Bank of Poland defined for a given currency as at the end of the reporting period. Exchange differences arising from the measurement of balances in foreign currency are recognized in financial income (costs) item or capitalized in the value of assets, respectively. Non-monetary assets and liabilities measured at historical costs in foreign currency are recognized at the historical exchange rate on the transaction date. Non-monetary assets and liabilities recognized at fair value stated in a foreign currency are translated at the rate applicable on the day of measurement to the fair value.

The following exchange rates have been adopted for the balance sheet valuation:

	31 December 2016	*31 December 2015*
USD	4,1793	3,9011
EUR	4,4240	4,2615
CHF	4,1173	3,9394

Foreign exchange gains and losses arising from the settlement of such transactions and balance sheet valuation of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

The financial statements are presented in Polish zloty, which is the functional and presentation currency of the Bank.

2.6. Available-for-sale fixed assets

Assets held for sale are assets whose carrying value will be recovered through a sale transaction rather than through their use. Non-current assets classified as available for sale cover components that are intended for immediate sale in their present condition, and the sale of which is highly probable.
Assets are offered for sale at a price that is reasonable in relation to their current fair value.
Assets for sale are accounted for at the lower of the two values:

- the carrying amount at the day preceding the classification of the asset as held for sale,
- fair value less costs to sell.

2.7. Tangible fixed assets

Tangible assets are carried at purchase price/ manufacturing cost less depreciation charges and impairment loss. The initial value of tangible assets includes its purchase cost plus all direct costs related to purchase and the adaptation of the asset for use. The cost also includes the cost of replacement of parts of machines and equipment at the time it is incurred, if the recognition criteria are met. The costs incurred after the date on which the fixed asset is made available for use, such as maintenance and repair costs, encumber the profit or loss at the time they are incurred.

Fixed assets at the time of purchase are divided into components being items of significant value, for which a separate period of economic usefulness can be assigned.

Depreciation is calculated using the straight-line method throughout the economic useful life of a given asset. Depreciation rates calculated on this basis are as follows:

Type		
Telecommunications devices	10,0-20,0	%
Other tangible assets	14,0–20,0	%
Vehicles	14,0-20,0	%
Computer hardware	10–33,3	%
Leasehold improvements*	10,0–38,0	%

**depreciation is charged in the period no longer than the period of the lease agreement*

The final value, the useful life and the depreciation method of assets are verified on an annual basis. An item of tangible fixed assets may be derecognized from the statement after its disposal or when the entity does not expect any economic benefits from the further use of the asset. All gains and losses arising from an asset's derecognition from the statement (calculated as the difference between the net proceeds from sale and the carrying amount of a given item) are recognized in the profit or loss in the period, in which the asset is derecognized.

Commenced investments apply to fixed assets under construction or assembly, and are recognized in line with the purchase price or manufacture costs less impairment loss. Fixed assets under construction are not subject to depreciation until the end of construction and making the assets available for use.

2.8. Intangible assets

Intangible assets purchased under a separate transaction or produced (if they meet the criteria for recognition for development costs) are initially measured at the purchase price or manufacture cost. Upon initial recognition, intangible assets are measured at the purchase price or manufacture cost less amortization charges and impairment loss. Expenditure on intangible assets generated internally, with the exception of capitalized development costs, are not capitalized and are recognized in the period in which they are incurred.

The Bank determines whether the useful life of intangible assets is limited or indefinite. Intangible assets with limited useful life are amortized over their useful life and tested for impairment when there is indication of impairment. The period and method of amortization of intangible assets with limited useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected consumption of the economic benefits resulting from an asset are recognized by changing the amortization period or method respectively, and treated as changes in estimates. The amortization charges on intangible assets with limited useful life are recognized in profit or loss in the category consistent with the function of the intangible asset.

Intangible assets with indefinite useful life and those that are not used are annually tested for impairment in respect of each asset or at the cash generating unit.

Development costs

Expenditure incurred on development works carried out in the framework of a given project are transferred to the next period, if it is legitimate to state that they will be recovered in the future. Following the initial recognition of the development expenditure, the historical cost model is applied, requiring that the assets are recognized at cost less accumulated amortization and accumulated impairment losses. Capitalized expenditures are amortized over the expected period of obtaining proceeds from the sale of the project.

The summary of rules applied to intangible assets is as follows:

	Patents and licenses	*Development costs*	*Computer software*
Useful life	For patents and licenses used on the basis of a contract for a specified period, said period is taken into account with an additional period for which use can be extended.	3.5 years	2-8 years
Depreciation method applied	Depreciated over the contract period – straight-line method.	Straight-line method	Straight-line method
Internally generated or purchased	Purchased	Internally generated	Purchased
Test for impairment	Indefinite useful life – annual and in case of indication of impairment. Other – annual assessment of indications of impairment.	Annual in case of components not yet in use, and if there is indication of impairment.	Annual assessment of indications of impairment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net proceeds from sale and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

2.9. Leases

Lease agreements, according to which the lessor retains substantially all the risks and rewards of ownership of the asset, are classified as operating leases.

Lease payments under an operating lease and subsequent lease payments are recognized by the Bank (lessee) as operating expenses in the profit or loss using the straight-line method over the term of lease.

Initial direct costs incurred in the course of negotiations of operating lease agreements are added to the carrying amount of the leased asset and recognized over the term of lease on the same basis as rental income.

2.10. Impairment of non-financial fixed assets

As at each end of the reporting period, the Bank evaluates whether there is any indication of impairment of a non-financial asset. If any such indications exist, or in the need to perform an annual test for impairment, the Bank estimates the recoverable amount of an asset or cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit equals the fair value less costs to sell the asset or cash-generating unit, respectively, or its value in use, depending on which one is higher. The recoverable amount is determined for individual assets, unless a given asset does not generate cash inflows that are largely independent from those generated by other assets or groups of assets. If the carrying amount of an asset exceeds its recoverable amount, impairment occurs and the write-down to its recoverable amount is carried out. When estimating the useful value, the projected cash flows are discounted to their present value using the discount rate before tax that reflects the current market assessment of time value of money and the risks specific to the asset. Impairment losses on assets used in continued operations are recognized in those cost categories, which are consistent with the function of the impaired asset.

At each reporting date the Bank evaluates whether there is any indication that an impairment loss, which was recognized in prior periods for an asset, is redundant or may be reduced. If such indications exist, the Bank estimates the recoverable amount of the asset. A previously recognized impairment loss is reversed only if there was a change in the estimates used to determine the recoverable amount of the asset since the previous recognition of the impairment loss. Should this be the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount of the asset that would have been determined (after depreciation), had the impairment loss in respect of that asset not been recognized in previous years. The reversal of impairment loss for an asset is recognized immediately as income. After the reversal of the impairment loss, in future periods, the depreciation of the asset is adjusted in such a way that allows regular write-off of its revised carrying amount less its final value over the remaining useful life of the asset.

2.11. Financial assets

Financial assets include the following categories:

- Financial assets held to maturity,
- Financial assets measured at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

Financial assets held to maturity include non-derivative investments with a determined or determinable due date or amount, which the Bank intends to and is able to hold to maturity. Securities held to maturity are measured by the Bank as amortized cost. They may be subject to impairment, as appropriate.

Financial assets measured at fair value through profit and loss meet one of the following conditions:

a) are classified as held for trading. Financial assets are classified as held for trading, if they are:

  - purchased principally for the purpose of selling in the short term,
  - part of the portfolio of certain financial instruments that are managed jointly and for which there is a probability of profit in the short term,
  - derivatives, except for derivatives that are part of hedge accounting and financial guarantee contracts,

b) assigned to this category upon initial recognition in accordance with IAS 39.

Financial assets measured at fair value through profit and loss are measured at fair value including their market value as of the reporting date without sale transaction costs. Changes in the value of these financial instruments are recognized in the statement of comprehensive income as financial income (positive net change in fair value) or costs (negative net change in fair value). At initial recognition, financial assets may be assigned to the category of assets measured at fair value through profit or loss if the following criteria are met:

- such designation eliminates or significantly reduces the inconsistency in terms of measurement or valuation (accounting mismatch),
- the assets are part of a group of financial assets that are managed and evaluated on a fair value basis, in accordance with the documented risk management strategy,
- financial assets contain embedded derivatives that should be recognized separately. As at 31 December 2016, no financial assets have been designated as measured at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with determined or determinable payments, which are not quoted in an active market. Loans and receivables cover amounts due from banks and credits and loans extended to customers. They have been measured at amortized cost and are subject to write-downs in case of impairment.

Financial assets, other than derivative hedging instruments, are classified as available for sale. Financial assets available for sale are recognized at fair value without deducting transaction costs that may be directly assigned for purchase or issuance of financial assets. Positive and negative difference between the fair value of financial assets available for sale (if their price is determined on the regulated market or whose fair value can be reliably estimated by alternative means) and their purchase price, net of deferred tax, is recognized in other comprehensive income. The decline in the value of assets available for sale resulting from impairment is recognized as a finance cost.

Purchases and sales of financial assets are recognized on the date of the transaction. At the initial recognition, a financial asset is measured at fair value, plus, in the case of assets not measures at fair value through profit or loss, transaction costs that are directly attributable to the purchase.

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise the financial instrument; this usually takes place when the instrument is sold, or when all cash flows attributable to the instrument are transferred to an independent third party.

2.12. Impairment of financial assets

As at each end of the reporting period, the Bank evaluates whether there is any indication of impairment of a financial asset or a group of financial assets.

a. Assets recognized at amortized cost

If there is objective evidence of impairment of loans granted and receivables measures at amortized cost, the amount of the loss is calculated as the difference between the carrying amount of a given asset and the present value of the estimated future cash flows discounted using the original (i.e. determined at initial recognition) effective interest rate. The carrying amount of an asset is reduced through posting of impairment losses.

Objective evidence of impairment of a financial assets or a group of assets includes information obtained by the Bank about the following loss generating events:

- overdue amount over 90 days on the borrower's account,
- significant deterioration in the economic and financial position of the borrower or occurrence of other factors which constitute a threat to the repayment of receivables,
- restructuring involving the Bank entering into an arrangement with the borrower, for economic or legal reasons related to the counterparty's difficult financial position which would not be otherwise entered into; in particular, in the event of a delay over 30 days within the period prior to the restructuring,
- identification of fraud or obtaining / attempt to obtain a loan under false pretences,
- bringing a legal action to court to obtain a writ of execution,
- expiry of the loan agreement notice period,
- disappearance of an active market for a given financial asset due to financial difficulties.

First, the Bank assesses whether there is objective evidence of impairment of individual financial assets that are individually significant, as well as indications of impairment of financial assets that are not individually significant. If the analysis shows that there is no objective indication of impairment for an individually assessed financial asset, regardless of whether it is significant or not, the Bank includes the asset in the group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss was previously recognized, or for which it has been determined that the loss does not change, are not taken into account in the overall assessment of assets for impairment.

If, in a subsequent period, an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. A reversal of an impairment loss is recognized in profit or loss to the extent, in which at the reversal date the asset's carrying amount does not exceed its amortized cost.

The IBNR provisioning methodology is based on statistical approach, and allows estimating losses generated by the retail products portfolio and interbank market transactions, for which evidence of impairment occurred, but has not yet been observed (was impossible to be observed) by the Bank (e.g. the customer lost their job, but the loan is repaid in a timely manner).

The Bank writes off loan receivables from the balance sheet to impairment losses when such receivables are uncollectible, that is:

- further debt recovery costs will exceed the expected proceeds from the recovery,
- ineffective debt enforcement by Bank confirmed by a relevant document of the competent enforcement authority.

For off-balance sheet liabilities arising from unused credit lines the Bank does not make allowances for impairment of financial assets.

As of February 2016, the Bank implemented more conservative assumptions in the IBNR impairments estimation methodology for the portfolio of unimpaired loans in respect of customers with at least one impaired loan. The change of the assumptions was due to the observed higher level of credit risk for these customers. The impact of the change on the IBNR impairment level in February 2016 was at MPLN 4.3, which represented 0.7% of the total level of write-offs.

The Bank extended the observation horizon, in which it measures the impaired loans migration rate by termination, from 8 to 10 quarters for cash loans and from 4 to 7 quarters for restructured loans. The changes resulted from the implementation of conclusions under the cyclical validation of the impairment estimation model. The impact of the change on the level of impairments was at MPLN 4.4, which represented 0.8% of the write-offs level. The change was implemented on 31 December 2016.

Preparation for the implementation of IFRS 9

In July 2014, the International Accounting Standards Board issued IFRS 9, which will apply from January 1, 2018, and will replace the previous IAS 39 standard.

The implementation of the Standard will result in a change of the classification criteria for valuation methods and will include three categories measured:

- at amortized cost,
- at fair value recognized in other comprehensive income,
- at fair value recognized through profit or loss.

In terms of classification and measurement of financial instruments, the Bank expects that the classification of financial assets will depend on:

- the results of evaluation of the business model of management of a given assets portfolio,
- the assessment of contractual terms and conditions of a given financial asset in terms of verification whether specific cash flows represent only payments of principal and interest on the outstanding amount.

As part of preparations for the implementation of IFRS 9, the Bank carried out an initial analysis based on the business model and the cash flows test. The change of the approach to the classification of financial assets may result in the necessity of reclassification and to change the valuation principles for a portion of financial instruments held.

In connection with the introduction of the Standard, the Bank does not expect significant changes in the area of hedge accounting. According to the Bank, the new model will positively impact on the quality of financial information more precisely reflecting the structural risk management rules and strategy, and the use of various forms of hedging it along with the assessment of the impact on various elements of financial statements.

IFRS 9 introduces significant changes in the valuation of non-impaired receivables. The current methodology used to estimate the IBNR impairment will be replaced with the methodology of estimating impairment based on the analysis of the likelihood of occurrence of impairment within 12 months or during the life of the exposure depending on the identification of events resulting in significant increase in the level of credit risk. The estimates of impairment estimation parameters will take into account the expectations regarding the macroeconomic situation, the so-called „forward looking".

In 2016, the Bank developed an initial methodology to estimate impairments in accordance with the rules defined in IFRS 9. In accordance with the provisions of the standard and the proposed methodology, the portfolio of receivables will be divided into 3 segments:

- Segment 1 (Stage 1): Performing: initial recognition. 12-month expected credit losses,
- Segment 2 (Stage 2): Receivables with a significant increase in credit risk: receivables characterized by a significant increase in credit risk. Expected credit losses calculated over the lifetime of the exposure,
- Segment 3 (Stage 3): Impaired receivables. Corresponds currently to a selected group of impaired credits. Losses estimated over the lifetime of the exposure.

Given the shortening of the period for the creation of additional impairments in the horizon of the exposure, the Bank expects a greater volatility of the level of write-downs for receivables in Segment 1 and Segment 2.

The methodology developed by the Bank includes in particular the modeling of PD parameters for portfolios classified by current regulations to the group without impairment. The Bank verified the classification criteria for the group with a significant increase in credit risk, taking into account the class of delays, the value of behavioral scoring and a number of variables describing the future repayments timeliness. The key variable included in the classification is the reaching of a 30-day delay by an exposure. The methodology applies the approximation of the future impairment probability level based on cumulative default curves. The estimates will take into account the expectations regarding macroeconomic developments and will be based on a scenario analysis using statistical models and/or expert opinions. In the impairment calculation base, the Bank will take into both the carrying amount of receivables and the level of unused credit lines. The LGD level will correspond to LGD estimated for the needs of estimating losses for impaired loans. The models used to estimate impairment losses will be covered by the model risk management process implemented in the Bank.

Currently, the analyses of the impact of the Standard on key Bank's processes has been completed, and a new impairment methodology has been developed. The Bank is currently assessing the impact of the new expected loss estimation model on the structure of regulatory capital. Work is in progress on the implementation of changes to the IT infrastructure supporting the portfolio valuation processes and related reporting.

b. Financial assets recognized at cost

If there is objective evidence for an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value can not be reliably measured, or on a derivative that is linked and must be settled by delivery of such an unquoted equity instrument, the amount of impairment loss is determined as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets.

c. Available-for-sale financial assets

For financial assets classified as available for sale, for which there is objective evidence of impairment (occurrence of significant financial difficulties of the issuer, the failure of the issuer to meet contractual provisions, e.g. a default or delay in payment of interest or principal, high probability of bankruptcy or restructuring of the issuer), the cumulative loss that had been recognized in other comprehensive income are reclassified from the revaluation reserve to the profit and loss account. The amount of the cumulative loss that is removed from other comprehensive income and recognized in profit and loss represents the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value. If, in a subsequent period, the fair value of a debt instrument available for sale increases, and the increase can be objectively related to an event occurring after the impairment losses has been recognized, the amount of the reversed impairment loss is recognized in the profit and loss account.

2.13. Financial derivatives and hedges

Derivative instruments used by the Bank to hedge the interest rate and foreign exchange risks are mainly forward currency contracts and interest rate swaps. Such derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive, or as liabilities - when the fair value is negative.

Gains and losses arising from changes in the fair value of derivatives that do not meet the hedge accounting rules are taken directly to the profit or loss for the financial year.

The fair value of currency *forward* contracts is determined by reference to the current forward rates applicable to contracts with similar maturity. The fair value of interest rate swaps is calculated based on a valuation model that takes into account the observable market data, including, in particular the current forward interest rates.

In hedge accounting, hedges are classified as:

- fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability, or
- cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability, or a forecast transaction.

At the inception of the hedge, the Bank formally designates and documents hedging relationships as well as the risk management objective and the hedging strategy. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Bank will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk. The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.
The Bank applied the hedge accounting policy in accordance with IAS 39, approved by the EU (the so-called 'carve out' version), abolishing some of the limitations of the original version of IAS 39.

2.14. Fair value hedges

A fair value hedge is a hedge against changes in the fair value of a recognized asset or liability or an unrecognized probable commitment, or an identified portion of such an asset, liability or probable commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and/or losses arising from changes in fair value resulting from the hedged risk, the hedging instrument is measured at fair value, and gains and losses on the hedging instrument and the hedged item are recognized in profit or loss. If the hedge applies only to specific types of risk that are attributable to the hedged item, the recognition of changes in the fair value of the hedged item, which is not related to the hedged risk, shall be in accordance with the general rules for a given category of financial instruments (e.g. the valuation of hedged financial assets classified as available for sale, resulting from factors other than the hedged risk, is presented in other comprehensive income until the disposal or maturity of the asset).

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability, and the corresponding gain or loss is recognized in profit or loss. Changes in the fair value of the hedging instrument are also recognized in the profit and loss account.

The Bank discontinues the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the hedging designation is revoked. Any adjustment of the carrying amount of a hedged financial instrument for which the effective interest method is used, is amortized and appropriate impairment is recognized in profit or loss. Amortization may begin as soon as an adjustment exists, however not later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

2.15. Cash flow hedges

A cash flow hedge is a hedge against the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, and that could affect the financial result. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income, and the ineffective part is recognized in the profit and loss account.

If a hedged forecast transaction results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income are transferred to profit or loss in the same period or periods in which the asset acquired or liability incurred affect profit or loss.

If a hedge of a forecast transaction results in the recognition of non-financial asset or non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which the fair value hedge will apply, the gains or losses that were recognized in other comprehensive income are reclassified from other comprehensive income to the profit and loss account in the same period or periods in which the non-financial asset acquired or non-financial liability incurred affect profit or loss.

Gains or losses arising from changes in fair value of derivatives that do not meet the conditions for the application of hedge accounting are recognized directly in the net result for the current period.

The Bank discontinues the hedge accounting when the hedging instrument expires or is sold, terminated or exercised, or when hedge no longer meets the criteria for hedge accounting. In this case, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income are still recognized revaluation reserve until the forecast transaction occurs. If the Bank no longer expects the forecast transaction to occur, the net total profit or loss accumulated in other comprehensive income are recognized in net profit or loss for the current period.

2.16. Inventory

Inventories are valued at the purchase price, taking into account impairment losses. The purchase price includes all costs of purchase, processing costs and other costs incurred in bringing the inventories to their present location and condition – both for the current and previous year. The purchase price is determined based on the "standard price" method.

2.17. Other receivables

Trade receivables are recognized and carried at original invoice amounts less an allowance for doubtful receivables. Losses on receivables are estimated when the recovery of the full amount is no longer probable.

If the effect of time value of money is material, the value of receivables is determined by discounting the expected future cash flows to their present value using a gross discount rate that reflects current market assessments of the time value of money. If the discounting method has been applied, the increase in receivables due to the passage of time is recognized as financial income.

Other receivables include, in particular, advance payments for future purchases of tangible fixed assets intangible assets and inventories. Advance payments are presented in accordance with the nature of the assets to which they refer – as the fixed assets or current assets. As a non-monetary assets, advance payments are not discounted. Budget receivables are presented within other non-financial assets, except for corporate income tax receivables, which are a separate item in the balance sheet.

2.18. Cash and cash equivalents

Cash in the balance sheet comprise cash at bank and the vaults, ATMs and CDMs.

The balance of cash and cash equivalents in the statement of cash flows consists of the above cash and cash equivalents, and funds on the Bank's accounts in other financial institutions.

2.19. Liabilities

Short-term trade liabilities are recognized at the amount payable.

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities initially classified as measured at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near future. Derivatives, including separated embedded instruments, are also classified as held for trading unless they are designated as effective hedging instruments. At initial recognition, financial liabilities may be assigned to the category of liabilities measured at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment, when both the measurement and recognition rules for profits or losses are subject to other regulations, or (ii) the liabilities are part of a group of financial liabilities which are managed and evaluated on a fair value basis, in accordance with the documented risk management strategy, or (iii) the financial liabilities contain an embedded derivatives that should be recognized separately. As at 31 December 2016, no financial liabilities have been designated as measured at fair value through profit or loss.

Financial liabilities measured at fair value through profit and loss are measured at fair value including their market value as of the reporting date without sale transaction costs. Changes in the fair value of these instruments are recognized in profit or loss as financial income or costs.

Financial liabilities other than financial instruments measured at fair value through profit or loss are measured at amortized cost using the effective interest rate method. In 2015 and 2016, the Bank issued debt securities that are classified as liabilities measured at amortized cost.

Bank derecognizes a financial liability when the liability expires – i.e. when the obligation specified in the contract is fulfilled, canceled or expired. A replacement of an existing debt instrument with an instrument with substantially different terms between the same parties is recognized by the Bank as expiration of the original financial liability and recognition of a new financial liability. Similarly, significant modifications of the agreement for an existing financial liability are recognized by Bank as the expiration of the original and recognition of the new financial liability. The resulting replacement differences for carrying amounts are recognized in profit or loss.

Other non-financial liabilities include in particular the obligations to the tax office for tax on goods and services, and liabilities on advances received, which will be settled by delivery of goods, services or fixed assets. Other non-financial liabilities are recognized at the amount due.

2.20. Provisions

Provisions are created when the Bank is subject to an obligation (legal or constructive) resulting from past events and it is probable that fulfillment of such obligation will involve the outflow of funds creating economic benefits, and the amount of such liability can be reliably measured. If the Bank expects the cost covered by the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, yet only when it is virtually certain that reimbursement will occur. Costs relating to any provision are presented in the statement of comprehensive income net of any reimbursements.

If the effect of time value of money is material, the value of provisions is determined by discounting the expected future cash flows to their present value using a gross discount rate that reflects current market assessments of the time value of money and potential risk associated with a given liability. If the discounting method has been applied, the increase in provisions due to the passage of time is recognized as financial cost.

The provision created for potential returns due the sale of the credit claims portfolio is presented in the statement of comprehensive income under item "Charges to provisions and value adjustments".

2.21. Retirement benefits

Retirement benefits are paid once at the time of retirement. The amount of retirement benefits is dependent on the term of service and the average salary. The Bank creates a provision for future liabilities due to retirement benefit in order to allocate costs to periods to which they relate. Pursuant to IAS 19, retirement benefits are schemes of certain benefits after the employment period. Accrued liabilities are equal to the discounted payments that will be made in the future, taking into account staff turnover, and relate to the period up to the balance sheet date. In the periods between the valuation of the current liability, Bank updates key indicators reflecting the employment structure necessary for correct provision assessment.

2.22. Equity

Equity comprises capital and funds created in accordance with applicable law and the Statute of the Bank.
The Bank's equity also includes retained earnings and any uncovered losses from previous periods.
Share capital is disclosed in the amount specified in the Bank's Statute and the entry in the court register at nominal value.
Supplementary capital is created from net profit deductions, according to the Statute of the Bank. It is created to cover balance-sheet losses.

The revaluation reserve states the differences in the valuation of assets available for sale, the differences in ihe valuation of hedging instruments that constitute effective cash flow hedges taking into account deferred tax. On the day of derecognition of all or part of financial assets available for sale, the total effects of changes in fair value recognized in the revaluation reserve are derecognized (reversed). All or respectively a part of previously made impairment loss increases or decreases the value of a financial asset available for sale. The effects of changes in fair value are derecognized in correspondence with the profit and loss account.

The net financial result of a financial year is the result of the profit and loss account of the current year, adjusted by income tax from legal persons.

2.23. Revenues and costs

Revenue is recognized in such amounts as it is probable that the Bank will obtain economic benefits associated with a given transaction, and when the amount of revenue can be measured reliably. Revenues are recognized at fair value of payments received or due, net of value added tax (VAT) and discounts. The recognition of revenue is also subject to the criteria presented below.

a. Interest income and interest expense

Interest income comprises interest received or receivable on loans, funds on the Bank's accounts at other financial institutions, deposits granted and financial assets available for sale. Interest expense includes interest accrued or paid on customer deposits, funds obtained on the interbank market and interest costs arising from issuance of debt securities. Net interest income includes interest revenue/expense due to derivatives designated by the Bank as hedging instruments.

Interest income and interest expense on financial instruments are recognized in the profit and loss account in the amount resulting from the valuation at amortized cost using the effective interest rate.

The effective interest rate is the rate that discounts the estimated future cash outflows or payments made through the expected life of the financial instrument to the net value of the asset or financial liability.

The recoverable portion of interest accrued on receivables with respect to which impairment has been identified is classified as revenue using the interest rate used for discounting future cash flows when measuring impairment.

Fees on extended advances and loans are settled over time using the effective interest rate and taking into account the related loan extension costs. Such fees are recognized as interest income.

Fees and commissions include remuneration received due to activities related to the conclusion of insurance agreements distributed among credit clients and are recognized in line with the rules described in point 2.23h.

b. Commissions

The main commission income items of the Bank are income on insurance intermediation, income on fees and commissions on keeping customer accounts, fees on the extension of credits and loans, and on the servicing of credit cards. Commission costs include in particular the costs of handling payment and credit cards and the costs of commissions for credit intermediation.

Income and expenses on fees and commissions, for which the effective interest rate method is inapplicable, are recognized on an accrual basis at the time of the service and are presented in the income statement in the commission income and expense item.

c. Other operating income and expenses

Other operating income and expenses include the results achieved by the Bank on activities not directly related to financial activities. In particular, these are the income and expenses on sale, services provided to franchisees, and due to recoveries of receivables previously written off to the off-balance sheet records.
Expenses are recognized on an accrual basis, i.e. in periods to which they relate, irrespective of the payment date.

d. Foreign exchange result and financial operations result

The result of foreign exchange includes, in particular, the realized and unrealized foreign exchange gains and losses resulting from servicing indexed mortgage products and their funding sources, and the settlement of invoice payments.
In the result of financial operations the Bank recognizes the ineffective portion of gains or losses on the hedging instrument in a cash flow hedge accounting, and the result from hedge accounting of financial instruments to fair value. In the result of financial operations the Bank also recognizes the amounts of income earned from the ownership of equity financial instruments.

e. Sale of goods and products

Revenue is recognized when the significant risks and rewards resulting from ownership rights to goods and products have been transferred to the buyer, and the amount of revenue can be measured reliably.

f. Services

Revenue on services is recognized based on the stage of performance.

The percentage of completion of the service is determined as the ratio of costs incurred to estimated costs necessary to complete the order.

Revenues on the bonus for maintaining the portfolio of insurance contracts are recognized during the accounting period, in which the bonus payment conditions have been met.

g. Revenue on lease (operating lease)

Revenues on lease of tangible fixed assets are recognized on the straight-line basis over the term of lease in relation to open agreements.

h. Revenue and expenses on sale of insurance products linked with credits and loans

In order to determine the recognition method of the transaction in the Bank's books, it is required to determine the degree of the direct link between an insurance product and a financial product, taking into account the economic sense of the transaction.

The direct link between an insurance product and a financial instrument particularly exists when at least one of the two conditions is met:

- a financial instrument is offered by the Bank always with an insurance product,
- an insurance product is offered by the Bank only with a financial instrument, i.e. it is not possible to purchase an insurance product which is identical in its legal form, terms and conditions and the economic substance without purchasing the product combined with a financial instrument.

In the analysis of the link between an insurance product and a financial instrument, the Bank takes into account financial instruments that are not offered contractually with an insurance, but which are recognized in the balance sheet in the result on the sale of an insurance product, regardless of whether this approach was the result of a contract with an insurance company, or an adopted business practice.

In the absence of fulfillment of the above-mentioned conditions, the Bank additionally performs a detailed analysis of the economic substance of the product, including the fulfillment of the criteria of independence of insurance agreements from offered financial instruments by establishing, inter alia, the following:

- the level of sales of linked products, i.e. the percentage share of financial instruments with insurance coverage to the number of agreements relating to financial instruments in the portfolio of the Bank,
- the average annual rates of individual financial instruments in the portfolio of the Bank by products with and without insurance coverage,
- the possibility to accede to insurance without a financial instrument,
- in the absence of the requirement for the customer to conclude an insurance contract to a purchased financial instrument – the number of similar terms and conditions of insurance contracts in other insurance companies than that whose products are offered by the Bank jointly with a financial instrument (a percentage share in the entire loan portfolio – by financial instruments in accordance with the product offer of the Bank),
- the number of withdrawals and the amount of returned commissions – by financial instruments in accordance with the product offer of the Bank, insurance products and insurance classes,
- the number of insurance contracts continued after early loan repayment, along with information about credit products with which they were linked,
- the scope of activities performed for the insurer during the term of the insurance contract;
- the effects of the analysis of management reports on the performance of individual financial instruments in accordance with the product offer of the Bank, banking services.

As a result of the above analysis, the Bank identifies which loans and insurance policies – in accordance with the bancassurance model adopted by the Bank – are linked transactions.

Accounting treatment of bancassurance costs and revenues for linked transactions

A transaction is split into components in respect of which income is allocated separately:

- Remuneration for services rendered at the time of signing of the insurance policy – in accordance with IAS 18, should be qualified as fees that are earned on the execution of a significant act and recognized once in commission income,
- Fee linked to the loan granted – the remuneration of the Bank reduced by remuneration for signing an insurance policy and by remuneration for services performed after insurance policy signing should be

treated as revenue for loan granting. Therefore, this part of remuneration is included in the effective interest rate and recognized in interest income,

- Remuneration for services rendered by the Bank during the term of the insurance policy – this part of remuneration (revenue) for ongoing services is deferred and amortized linearly in commission income over the life of the policy (deferred part) in line with the stage of completion of the service.

The split of insurance remuneration is made in proportion of the fair value of the financial instrument (loan) and the fair value of the intermediation service (taking into account the remuneration for additional activities after the sale of an insurance product) to the sum of both these values. In the calculation of the split of remuneration, the Bank also takes into account the value of after-sales services rendered by the Bank.

The measurement of the fair value of the insurance intermediation service (including the value of after-sales services) is made based on market prices analysis.
The determination of the fair value of a financial instrument is based on the income-based approach involving the recalculation of future amounts into the present value, in line with IFRS 13, which constitutes a reliable approximation of the fair value.
Bank's revenues are recognized in net amounts. Therefore, it is required to calculate the expected returns of the Bank's remuneration due to early loan repayments resulting in the shortening of the insurance coverage period. The Bank creates a provision up to the amount of future expected returns for:

- the portion related to the remuneration for intermediation. The provision is used in correspondence with the commission income item in the event of returns,
- the portion related to the remuneration for after-sales services. The provision is used in correspondence with the commission income item in the event of returns,
- the deferred part accounted for at amortized cost, as an element adjusting the effective interest rate. The provision is used in correspondence with the interest income item in the event of returns.

i. Revenues and costs from the sale of insurance products not linked to credit products

The remuneration for stand-alone products is the remuneration for the execution of a significant act, and it does not require the Bank to provide any other services, particularly after the sale. Therefore, the remuneration from insurance companies due or received is recognized as revenues earned on the day of commencement or renewal of insurance policies.

2.24. Taxes

a. Preliminary remarks

On 15 July 2016, the Tax Ordinance was amended to include the provisions of the General Anti-Abuse Rule (GAAR). GAAR is to prevent the formation and use of artificial legal structures created in order to avoid tax payments in Poland. GAAR defines tax avoidance as an activity made primarily in order to achieve tax benefits, contrary in given circumstances to the subject and purpose of the provisions of the Tax Act. According to GAAR, such activity does not result in the achievement of a tax benefit if the behavior was artificial. Any occurrence of: unjustified distribution of operations, engaging intermediaries despite the lack of economic justification, mutually terminating or compensating elements, and other measures having a similar effect to the aforementioned, may be treated as an indication of the existence of artificial activities covered by GAAR. The new regulations will require much greater judgment when assessing the tax implications of individual transactions.

The GAAR clause should be applied to transactions made after its entry into force and to transactions that were carried out prior to the entry into force of the GAAR but for which the benefits have been or are still being achieved after the entry into force of the clause. The implementation of these regulations will enable the Polish tax control authorities to question the legal arrangements and agreements made by taxpayers, such as restructuring and reorganization of the group.

b. Current tax

Current tax payables and receivables for the current and prior periods are measured at the amounts expected to be paid to tax authorities (recoverable from tax authorities) using the tax rates and tax laws legally or substantively applicable at the balance sheet date.

The income tax basis is calculated based on local tax law as set out in the provisions of the Corporate Income Tax Act.

c. Deferred tax

For the purpose of financial reporting, the deferred tax is determined according to the balance sheet liability method in relation to temporary differences occurring as at the end of the reporting period between the tax value of assets and liabilities and their carrying amount recognized in the financial statements.

Deferred tax provisions are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets are the amounts in future periods to be deducted from the income tax due to:

- deductible temporary differences,
- the transfer of unused tax losses to the next period,
- the transfer of unused tax reliefs to the next period.

Temporary differences are differences between the carrying amount of an asset or liability and its tax value. Temporary differences may include:

- taxable temporary differences, i.e. temporary differences that will result in taxable amounts in the course of determining taxable profit (tax loss) in future periods, when the carrying amount of an asset or liability is recovered or settled.
- deductible temporary differences, i.e. temporary differences that will result in deductible amounts in the course of determining taxable profit (tax loss) of future periods, when the carrying amount of an asset or liability is recovered or settled.

The carrying amount of a deferred tax asset is verified as at each end of the reporting period and is reduced as appropriate, taking into account the reduction in the probability of achieving taxable income sufficient for the realization of the deferred tax asset in part or in whole. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized up to the amount reflecting the probability of achieving taxable income in the future will allow the recovery of the asset.

Deferred tax asset and liability are measured with the application of tax rates expected to be applicable in the period of realization of the asset or release of the provision, with the consideration of tax rates (and tax regulations) applicable as at the end of the reporting period or rates that will be applicable at the end of the reporting period in the future.

Income tax relating to items recognized outside profit or loss is recognized outside profit or loss: in other comprehensive income relating to items recognized in other comprehensive income or directly in equity relating to items recognized directly in equity.

The Bank offsets deferred tax assets and provisions only if it has an enforceable legal right to offset receivables with current tax liabilities, and the deferred income taxes relate to the same taxable entity and the same tax authority.

The amount of the deferred tax asset and liability is determined based on the income tax rate applicable in the year in which the tax obligation occurs.

The deferred portion disclosed in the statement of comprehensive income constitutes the difference between the opening and closing balance of the deferred tax asset and liability in the reporting period, whereas the deferred tax asset and liability related to transactions charged to equity are also charged to the revaluation reserve.

a. Major estimates and judgments

The preparation of IAS/IFRS-compliant financial statements requires that the Management Board make certain estimates and adopt assumptions that affect the amounts presented in the financial statements and explanatory notes.

The estimates and assumptions made by the Bank are subject to regular reviews. Adjustments of estimates are recognized in the period in which such adjustments were made.

Major assumptions/subjective assessments adopted for the purpose of estimations concern mainly the following:

- **Impairment of credits and loans**

The assumptions adopted during the estimation of the impairment of loans and advances are described in point 2.12.

- **Impairment of fixed assets**

As of every balance sheet date, the Bank assesses the existence of premises indicating the impairment of any components of fixed assets or cash-generating units.

In the presence of such a premise, the Bank estimates the recoverable value. The estimation of the value-in-use of a component of fixed assets or cash-generating unit requires to adopt assumptions on the values and dates of such flows and potential changes.

- **Insurance income**

In order to determine the recognition method for insurance products sale transactions, the Bank determines the degree of the direct link between an insurance product and a financial product, taking into account the economic sense of the transaction and a number of criteria.

As at each balance sheet date, the Bank estimates provisions for the return of remuneration related to early termination of insurance policies, in particular, resulting from loan repayments effecting in the reduction of the insurance coverage period. The Bank makes such estimates based on historical data on early loan repayments.

- **Useful life of tangible fixed assets and intangible assets**

The useful life of tangible fixed assets and intangible assets is the period of economic life of assets, in which, as expected by the Bank, fixed assets and intangible assets will be used and will generate economic benefits. Notes 2.7 and 2.8 present the amortization rates for tangible fixed assets and intangible assets.

- **Provisions for pension and disability funds**

The provisions for pension funds is calculated as the present value of future liabilities towards employees according to the level of employment and wages as of the update date. The calculation of provisions is based on a number of assumptions concerning both macroeconomic conditions and assumptions as to the turnover of employees, risk of death and other.

- **Component of deferred tax assets**

The Bank recognizes the deferred tax assets portion based on the assumption of a future tax profit allowing its use. The deterioration of tax profits in the future could result in that this assumption would become ungrounded. Note 21 describes the estimates regarding the use of tax losses from previous years recognized in deferred tax assets.

NOTES TO THE PROFIT AND LOSS ACCOUNT

3. Interest income

(PLN '000)	2016	2015
Interest income calculated using the effective interest rate method, of which:	**842 099**	**795 097**
Income on bank deposits	9 425	11 809
Income on credits and loans for customer (individuals):	813 343	765 971
- non-impaired loans	771 060	729 704
- impaired loans	42 283	36 267
Income on financial assets available for sale	19 177	16 599
Credits and loans from banks	915	718
Derivative hedge instruments	(761)	-
TOTAL	**842 099**	**795 097**

4. Interest expense

(PLN '000)	2016	2015
Interest expense calculated using the effective interest rate method, of which:	**200 128**	**210 695**
Cost of liabilities to banks and financial institutions:	107 407	115 759
- Banks	101 288	108 280
- Financial institutions	6 119	7 479
Cost of liabilities to customers:	81 695	94 101

- Individuals	81 695	94 101
Costs of amounts due to debt securities issuance	11 019	828
Costs of loans extended to customers	7	7
Derivative hedge instruments	2 371	8 699
TOTAL	**202 499**	**219 394**

5. Commission income

(PLN '000)	2016	2015
Commission income on sale of insurance	57 863	58 531
Commissions for transactions on customer accounts, credit and loans	34 990	30 624
Commissions for payment and credit card servicing	15 258	14 471
Other commissions	1 821	1 604
TOTAL	**109 932**	**105 230**

6. Fee and commission expense

(PLN '000)	2016	2015
Credit intermediation commissions	14 791	11 636
Commissions for payment and credit card servicing	30 159	27 307
Expense on insurance sale	1 873	1 485
Other fees and commissions	1 167	761
TOTAL	**47 990**	**41 189**

7. Net income on financial operations

(PLN '000)	2016	2015
Derivative hedge instruments - cash flows hedging	300	-
Derivative hedge instruments - fair value hedging	11 706	-
Income from the sale of equity instruments*	36 252	-
Dividends received	39	-
TOTAL	**48 297**	**-**

**Income from the receipt of Visa Inc. shares. Detailed information regarding this transaction is provided in Note 18*.

8. Foreign exchange result

(PLN '000)	2016	2015
Foreign exchange income	163 012	291 950
Foreign exchange costs	(159 865)	(289 688)
TOTAL	**3 147**	**2 262**

The income and expense on FX positions were affected in particular by the repayments of mortgage products denominated in CHF and its funding sources continued in 2016, as well as by the settlement of invoices. Currency risk management is described in note 38.

9. Other operating income

(in PLN '000)	2016	2015
Other sales income*	24 593	216
Income on collection fees	17 191	14 280
Recovered receivables written off the balance sheet**	21 432	56 430
Income on reinvoices to franchisees	2 493	2 671
Income on management of sold receivables	10 059	11 172
Release of provisions for liquidation of branches	-	2 266
Release of provisions for expected losses	538	389
Income on disposal of fixed assets, intangible assets and assets held for sale	130	-
Release of provisions for legal claims	572	140
Impairment losses on receivables	551	676
Other	1 613	2 009
TOTAL	**79 172**	**90 249**

** including, the amount on the sale of SPV in 2016 – MPLN 24.3.*
*****including the income on the sale of credit receivables of the Bank in the amount of MPLN 10.4 in 2016 (MPLN 40.2 in 2015).*

In 2016, the Bank sold NPL portfolios to the nominal amount of principal at MPLN 59.6 (the entire value of sales relates to claims formerly held in the off-balance sheet).

Revenues from the sale o NPL portfolios in the off-balance sheet of the Bank are presented in "Other operating income".

In April 2016, the Kolima Sp. z o.o. sp.k. company was registered. The Bank, as a limited partner of the limited partnership, restructured its claims by making an in-kind contribution in the form of lost credit claims.
Following this, there has been a transfer of all the rights and responsibilities of the limited partner at Kolima sp. z o.o. sp. k. and a sale of 100% of the Bank's shares in Kolima sp. z o.o for the benefit of a third party. As a result of the transaction, the Bank earned a revenue of MPLN 22.7.

In April 2016, the NPL FIN Sp. z o.o. sp.k. company was also registered. The Bank, as a limited partner of the limited partnership, made an in-kind contribution in the form of lost credit debts.
Following this, there has been a transfer of all the rights and responsibilities of the limited partner at NPL FIN sp. z o.o. sp. k. for the benefit of a third party. As a result of the transaction, the Bank earned a revenue of MPLN 1.65.

10. Other operating expense

(PLN '000)	2016	2015
Related to liquidation of fixed assets, intangible assets and assets held for sale	965	1 563
Collection and court costs	9 345	12 569
Impairment losses on receivables	1 232	2 182
Provisions for expected losses	1750	288
Other provisions	25	
Franchise costs	669	869
Complaint costs	744	770
Costs of sale of receivables	2	135
Costs due to management of sold receivables	3 059	3 813
Other	1 870	2 673
TOTAL	**19 661**	**24 862**

11. Operating expenditure

(in PLN '000)	2016	2015
Employee costs	**210 853**	**201 257**
Remunerations	171 977	164 464
Social insurance	29 527	28 369
Other costs of employee benefits	9 349	8 424
Material costs	**247 610**	**235 748**
Building rental costs	60 937	63 047
Promotion and advertising services	37 483	44 397
Cost of consultancy and specialized services	25 220	18 697
IT and telecommunications services	24 980	22 286
Cost of purchase of materials	11 453	12 382
Contribution and payments to the Bank Guarantee Fund*	24 040	32 425
Contribution to the Borrowers Support Fund**	-	9 704
Postal fees	3 939	3 758
Taxes and charges	29 254	5 029
- including the banking tax	25 482	-
Property insurance costs	3 207	3 175
Vehicle fleet management costs	7 427	7 284
Other material costs***	19 670	13 564
TOTAL	**458 463**	**437 005**

* including *kPLN 844 in 2016 as the Bank's mandatory contribution to the Bank Guarantee Fund in accordance with resolution no. 308/DGD/2016 of the Management Board of the Bank Guarantee Fund on the payment of guaranteed funds to depositors of Bank Spółdzielczy in Nadarzyn, and MPLN 11.5 in 2015 as the Bank's mandatory contribution to the Bank Guarantee Fund in accordance with resolution no. 87/DGD/2015 of the Management Board of the Bank Guarantee Fund on the payment of guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa*

*** in 2015, the cost of the contribution to the Borrowers Support Fund pursuant to the Act of 9 October 2015 on the support for mortgage borrowers in difficult financial situation*

**** other material costs include, among others, in 2016, the costs of maintenance and repairs (MPLN 7).*

12. Depreciation

(in PLN '000)	2016	2015
Depreciation of tangible fixed assets	19 989	17 385
Depreciation of intangible assets	15 184	12 055

TOTAL	**35 173**	**29 440**

13. Result on impairment losses

(in PLN '000)	2016	2015
Impairment losses	**(160 988)**	**(151 727)**
Individuals	(160 966)	(151 531)
- allowances for incurred but not reported losses (IBNR)	(15 613)	(16 705)
Mortgage loan	(3 869)	(12 578)
Credit card	(178)	(17)
Cash loan	(9 581)	(3 674)
Other credits and loans	(1 985)	(436)
- allowances for impaired receivables	(145 353)	(134 826)
Mortgage loan	(24 296)	(39 291)
Credit card	(5 130)	(4 350)
Cash loan	(107 545)	(83 685)
Other credits and loans	(8 382)	(7 500)
Banks	(22)	(196)
- allowances for incurred but not reported losses (IBNR)	(22)	(196)
Released impairment losses	**34 266**	**78 436**
Individuals	25 526	65 445
- release of allowances for incurred but not reported losses (IBNR)	9 662	24 773
Mortgage loan	8 910	8 883
Credit card	114	231
Cash loan	258	15 472
Other credits and loans	380	187
- release of allowances for impaired receivables	15 864	40 672
Mortgage loan	12 231	8 347
Credit card	176	4 106
Cash loan	3 360	27 943
Other credits and loans	97	276
Banks	22	222
- release of allowances for incurred but not reported losses (IBNR)	22	222
Release of provision for potential claims on sale of the loan portfolio	8 718	12 769
NET IMPAIRMENT ALLOWANCE	**(126 722)**	**(73 291)**

14. Income tax

Income tax for a given reporting period which affects the financial result includes the following items:

a) current portion,

b) deferred portion.

Current income tax is calculated based on the gross profit determined in line with IFRS, adjusted by non-taxable revenue and expenses which are not tax-deductible.

(PLN '000)	2016	2015
Income tax charged to profit/loss for a given financial year		
- current portion	(13 521)	-

- current portion (income tax adjustment of previous years)	-	95
- change in (net) deferred tax asset	(24 725)	(33 308)
TOTAL	**(38 246)**	**(33 213)**

Determination of the effective tax rate

(in PLN '000)	2016	2015
Income tax calculation – current portion		
Profit before tax	180 228	167 657
Income tax at the statutory rate of 19%	**(34 243)**	**(31 855)**
- State Fund for Rehabilitation of Disabled Persons (PFRON)	(489)	(554)
- non-deductible contributions to organizations	(1 432)	(801)
- non-deductible credit allowance costs*	(347)	3 936
- partial write-off for unused losses from previous years	3 240	(3 240)
- tax on certain financial institutions	(4 842)	
- other	(133)	(699)
Income tax charged to profit/loss for a given financial year	**(38 246)**	**(33 213)**
Effective tax rate %	**21,22**	**19,81**

The tax on certain financial institutions, introduced in February 2016, is entirely a non-deductible cost of the Bank pursuant to Article 16(1)(70) of the Act on Corporate Income Tax.

Given the use of all tax losses available in 2016 from years 2011-2013, since August this year the Bank pays advances to income tax in the actual amount.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

15. Cash and deposits in the Central Bank

(in PLN '000)	31.12.2016	31.12.2015
Cash	76 049	56 916
Funds on accounts in Central Bank	27 237	209 525
TOTAL	**103 286**	**266 441**

Cash includes funds in the Bank's cashboxes, CDMs, ATMs and branch vaults.
During the day the Bank can use cash from the account of the mandatory reserve held at the National Bank of Poland for its current transactions, but it has to provide an average level of cash on the account in order to satisfy the minimum reserves requirements under the Act on the National Bank of Poland. In the reporting period covering the 31st of December 2016, the Bank was obliged to maintain an average reserve of kPLN 233,284. In the reporting period covering the 31st of December 2015, the Bank maintained a reserve of kPLN 216,789.

16. Amounts due from banks

a) structure of receivables

(in PLN '000)	31.12.2016	31.12.2015
Current accounts	18 471	13 370
Term deposits	114 335	114 341
Other receivables	7	3
Gross total	**132 813**	**127 714**
Impairments	**(20)**	**(20)**
- term deposit IBNR impairment loss	(20)	(20)
TOTAL	**132 793**	**127 694**

In 2016 and 2015 no impairment loss on receivables from banks has been recognized.

b) structure by risk groups

(in PLN '000)	31.12.2016	31.12.2015
Non-impaired receivables	132 813	127 714
IBNR impairment losses	(20)	(20)
TOTAL	**132 793**	**127 694**

c) change in impairment losses

As at 1 January 2016 ***(in PLN '000)***	(20)
Change in value of impairments:	-
IBNR impairment loss on deposits offered to banks	(22)
Used impairments	-
Release of IBNR impairment losses on deposits offered to banks	22
As at 31 December 2016 ***(in PLN '000)***	**(20)**

As at 1 January 2015 ***(in PLN '000)***	(46)
Change in value of impairments:	-
IBNR impairment loss on deposits offered to banks	(196)
Used impairments	-
Release of IBNR impairment losses on deposits offered to banks	222
As at 31 December 2015 ***(in PLN '000)***	**(20)**

d) structure by maturity from the balance-sheet date (face value)

(in PLN '000)	31.12.2016	31.12.2015
up to 30 days	18 616	13 515
30 to 90 days	24	24
90 to 180 days	42 000	-
180 days to 1 year	-	-
1 to 3 years	20 000	42 000
3 to 5 years	50 000	70 000
over 5 years	-	-
TOTAL	**130 640**	**125 539**

17. Customer loans

a) structure by risk groups

(in PLN '000)	31.12.2016	31.12.2015

Gross value		
Non-impaired receivables	11 050 679	10 188 229
Impaired receivables	963 125	974 663
- including individually valuated	188 378	201 215
- including portfolio valuated	774 747	773 448
Gross total	**12 013 804**	**11 162 892**
Impairments	(615 949)	(622 426)
impairment loss for non-impaired receivables	(56 437)	(50 486)
impairment loss for impaired receivables	(559 512)	(571 940)
- including exposures assessed individually	(66 981)	(71 686)
- including exposures assessed on a portfolio basis	(492 531)	(500 254)
Net receivables	**11 397 855**	**10 540 466**

b) structure by products

(in PLN '000)	**31.12.2016**	**31.12.2015**
Gross value	**12 013 804**	**11 162 892**
Non-impaired receivables	**11 050 679**	**10 188 229**
Mortgage loan	6 288 172	5 798 293
Credit card	95 001	100 758
Cash loan	4 600 138	4 232 050
Other credits and loans	67 368	57 128
Impaired receivables	**963 125**	**974 663**
Mortgage loan	188 378	201 215
Credit card	23 329	32 015
Cash loan	724 700	722 216
Other credits and loans	26 718	19 217
Impairment losses (including IBNR)	**(615 949)**	**(622 426)**
Impairment loss for non-impaired receivables	**(56 437)**	**(50 486)**
Mortgage loan	(12 516)	(17 557)
Credit card	(530)	(466)
Cash loan	(41 121)	(31 798)
Other credits and loans	(2 270)	(665)
Impairment loss for impaired receivables	**(559 512)**	**(571 940)**
Mortgage loan	(66 981)	(71 626)
Credit card	(15 200)	(20 701)
Cash loan	(450 915)	(460 730)
Other credits and loans	(26 416)	(18 883)
Net receivables	**11 397 855**	**10 540 466**

c) structure of receivables by customers

(in PLN '000)	**31.12.2016**	**31.12.2015**
Gross value	**12 013 804**	**11 162 892**
Individuals	12 013 804	11 162 892
Impairments	**(615 949)**	**(622 426)**
Individuals	*(615 949)*	*(622 426)*
Net receivables	**11 397 855**	**10 540 466**

d) change in impairments

As at 1 January 2016 (in PLN '000)	**(622 426)**
Change in value of impairments:	
Impairment of loans and credits extended to customers	(160 966)
Total amounts charged to provisions	141 917
Reversal of impairment losses	25 526
As at 31 December 2016 (in PLN '000)	**(615 949)**

As at 1 January 2015 (in PLN '000)	(751 568)
Change in value of impairments:	
Impairment of loans and credits extended to customers	(151 531)
Total amounts charged to provisions	215 228
Reversal of impairments	65 445
As at 31 December 2015 (in PLN '000)	**(622 426)**

e) structure by maturity from the balance-sheet date (face value)

(in PLN '000)	31.12.2016	31.12.2015
up to 30 days	730 830	730 444
30 to 90 days	253 749	236 346
90 to 180 days	345 737	345 986
180 days to 1 year	653 952	646 540
1 to 2 years	1 187 894	1 170 065
2 to 5 years	2 824 690	2 684 337
over 5 years	6 384 601	5 680 895
TOTAL	**12 381 453**	**11 494 613**

18. Available-for-sale financial assets

Financial assets available for sale include money debt securities and shares in Visa Inc. held by the Bank.

SECURITIES *(in PLN '000)*	31.12.2016	31.12.2015
With unlimited transferability, unlisted on stock exchange and not placed on regulated over-the-counter market	**1 748 931**	**1 004 703**
a) debt securities:	1 748 931	1 004 703
- treasury bonds	1 453 291	
- money bills	210 880	1 004 703
- other bonds	84 760	
Listed stock	-	15
Unlisted stock	**7 019**	**30 077**
Total	**1 755 950**	**1 034 795**

The "Unlisted stock" item includes the shares of Visa Inc. In December 2015, the Bank's Management Board received information on the proposed allocation of the settlement of the acquisition of Visa Europe Limited by Visa Inc. The transaction was held in June 2016. As a member of Visa Europe, the Bank was one of the beneficiaries of the transaction. The Bank received:

- 2 305 C-series shares of Visa Inc. At the initial recognition in the books of the bank (21 June 2016, the day of the operation by Visa Inc) these shares were registered, taking into account the stock exchange value of A-series shares of Visa Inc., the par value of C-series shares in relation to the price of A-series shares at 13.952, and the discount adopted by the Bank. The discount settled over time realigns the valuation of shares in the books of the bank in relation to the limited liquidity of the instrument and the possibility of changing the final number of shares received in connection with possible disputes arising from recognized appeals of Visa Europe members concerning the allocation. The value of shares received was recorded by the Bank as income in the amount of MPLN 6.2.
- the cash portion (MEUR 6.3) was recognized by the Bank as one-off income of MPLN 27.9,

- the deferred cash payment of MEUR 0.5 is the liability of Visa to pay the Bank, within 3 years, the amount corresponding to the Bank's share (0.0489%) in the amount subject to distribution (EUR 1.12 billion). At the time of initial recognition, the Bank recorded revenue in the amount of MPLN 2.1, taking into account the discount realigning the value of future expected cash flows.

The total income of the Bank due to the sale of Visa Europe shares to Visa Inc, according to the valuation as of December 31, 2016, amounted to MPLN 36.2. The revenue of Bank in this respect was recognized in the income result of the Bank in the result of financial operations.

a) structure of securities by maturity from the balance-sheet date

Maturity dates (*PLN '000)*	**31.12.2016**	**31.12.2015**
Without maturity	7 019	30 092
Up to 1 month	765 324	1 004 703
From 3 to 6 months	-	-
From 6 months to 1 year	203 188	-
1 to 2 years	205 898	-
2 to 5 years	489 761	-
over 5 years	84 760	-
Total	**1 755 950**	**1 034 795**

19. Intangible assets

(PLN '000)	Organizational expenses	Goodwill	Computer software	Internally generated software	Other intangible assets	Intangible assets not commissioned	Total
Gross value as at 1 January 2016	**43**	**39 844**	**64 014**	**33 256**	**9 227**	**2 721**	**149 105**
Additions due to:	-	-	10 905	7 240	689	13 296	32 130
purchase	-	-	191	3 880	24	13 296	17391
acceptance for use	-	-	10 714	3 360	665	-	14 739
reclassification between groups	-	-	-	-	-	-	-
Disposals due to:	-	-	218	3 676	1	11 379	15 274
release for use	-	-	-	3 360	-	11379	14 739
reclassification between groups	-	-	-	-	1	-	1
liquidation	-	-	218	316	-	-	534
release of provisions	-	-	-	-	-	-	-
Gross value as at 31 December 2016	**43**	**39 844**	**74 701**	**36 820**	**9 915**	**4 638**	**165 961**
Depreciation as at 1 January 2016	**43**	**-**	**38 800**	**16 534**	**8 702**	**-**	**64 079**
Additions	-	-	7 164	7 755	264	-	15 183
- depreciation	-	-	7 164	7 755	264	-	15 183
- reclassification between groups	-	-	-	-	-	-	-
Disposals	-	-	151	-	-	-	151
- including reclassification between groups	-	-	151	-	-	-	151
Depreciation as at 31 December 2016	**43**	**-**	**45 813**	**24 289**	**8 966**	**-**	**79 111**
Impairments 01.01.2016	**-**	**39 844**	**-**	**-**	**-**	**-**	**39 844**
Impairments 31.12.2016	**-**	**39 844**	**-**	**-**	**-**	**-**	**39 844**
Net value as at 1 January 2016	**-**	**-**	**25 214**	**16 722**	**525**	**2 721**	**45 182**
Net value as at 31 December 2016	**-**	**-**	**28 888**	**12 531**	**949**	**4 638**	**47 006**

All intangible assets are held by the Bank and no intangible assets are used based on a finance lease agreement.

(PLN '000)	Organizational expenses	Goodwill	Computer software	Internally generated software	Other intangible assets	Intangible assets not commissioned	Total
Gross value as at 1 January 2015	**43**	**39 844**	**45 477**	**25 569**	**8 831**	**16 178**	**135 942**
Additions due to:	-	-	18 600	16 547	396	6 895	42 438
purchase	-	-	1 766	7 495	351	6 874	16 486
acceptance for use	-	-	16 834	8 672	45	-	25 551
reclassification between groups	-	-		380	-	21	401
Disposals due to:	-	-	63	8 860	-	20 352	29 275
release for use	-	-	-	8 672	-	16 879	25 551
reclassification between groups	-	-	63	-	-	391	454
liquidation	-	-	-	99	-		99
release of provisions	-	-	-	89	-	3 082	3 171
Gross value as at 31 December 2015	**43**	**39 844**	**64 014**	**33 256**	**9 227**	**2 721**	**149 105**
Depreciation as at 1 January 2015	**43**	**-**	**33 740**	**9 766**	**8 478**	**-**	**52 027**
Additions	-	-	5 063	6 768	224	-	12 055
- depreciation	-	-	5 063	6 768	224	-	12 055
- reclassification between groups	-	-	-	-		-	-
Disposals	-	-	3	-		-	3
- including reclassification between groups	-	-	3	-		-	3
Depreciation as at 31 December 2015	**43**	**-**	**38 800**	**16 534**	**8 702**	**-**	**64 079**
Impairments 01.01.2015	**-**	**39 844**	**-**	**-**	**-**	**-**	**39 844**
Impairments 31.12.2015	**-**	**39 844**	**-**	**-**	**-**	**-**	**39 844**
Net value as at 1 January 2015	**-**	**-**	**11 737**	**15 803**	**353**	**16178**	**44 071**
Net value as at 31 December 2015			**25 214**	**16 722**	**525**	**2 721**	**45 182**

All intangible assets are held by the Bank and no intangible assets are used based on a finance lease agreement.

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20. Tangible fixed assets

(PLN '000)	**Buildings and structures**	**Computers and computer hardware**	**Technical equipment and machinery**	**Vehicles**	**Other fixed assets**	**Fixed assets under construction**	**Total**
Gross value as at 1 January 2016	**113 076**	**60 641**	**10 525**	**56**	**51 766**	**1571**	**237 635**
Additions due to:	1 916	11 168	86	-	1 216	14 517	28 903
purchase	1 208	474	40	-	707	14 517	16 946
acceptance for use	703	10 694	46		488	-	11 931
reclassification between groups	5		-	-	21	-	26
Disposals due to:	3 840	8 516	64	-	1 570	11 959	25 949
sale	-	-	-	-	-	-	-
liquidation	3 840	8 516	64	-	1 570	11 959	25 949
release for use	-	-	-	-	-	11 931	11 931
reclassification between groups	-	-	4	-	-	21	25
release of provisions					-	7	7
Gross value as at 31 December 2016	**111 152**	**63 293**	**10 547**	**56**	**51 412**	**4129**	**240 589**
Depreciation as at 1 January 2016	**71 269**	**36 402**	**9144**	**56**	**47 191**	**-**	**164 062**
Additions	10 870	7 199	308	-	1 611	-	19 988
depreciation	10 870	7 199	308	-	1 611	-	19 988
other additions	-	-	-	-		-	-
Disposals due to:	2 973	8 516	60	-	1 537	-	13 086
sale		-	-	-	-	-	
liquidation	2 973	8 516	60	-	1 537	-	13 086
other disposals	-	-	-	-	-	-	-
Depreciation as at 31 December 2016	**79 166**	**35 085**	**9 392**	**56**	**47 265**	**-**	**170 964**
Impairment loss as at 1 January 2016		**-**	**-**	**-**	**--**	**-**	**-**
Additions	3 098	**-**	**-**	**-**	**-**	**-**	**3 098**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impairment loss as at 31 December 2016	**3 098**	**-**	**-**	**-**	**-**	**-**	**3 098**
Net value as at 1 January 2016	**41 807**	**24 239**	**1 381**	**-**	**4 575**	**1 571**	**73 573**
Net value as at 31 December 2016	**28 888**	**28 208**	**1 155**	**-**	**4 147**	**4 129**	**66 527**

All tangible fixed assets are held by the Bank and no such assets are used based on a finance lease agreement.

(PLN '000)	Buildings and structures	Computers and computer hardware	Technical equipment and machinery	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value as at 1 January 2015	**109 678**	**79 575**	**10 163**	**56**	**51 465**	**16 986**	**267 923**
Additions due to:	9 567	19 116	517	-	2 096	3 163	34 459
purchase	7 562	13 313	276	-	2 054	3 122	26 327
acceptance for use	1 889	5 780	241		42	-	7 952
reclassification between groups	116	23	-	-	-	41	180
Disposals due to:	6 169	38 050	155	-	1 795	18 578	64 747
sale	-	-	-	-	-	-	-
liquidation	6 157	38 050	69	-	1 795	-	46 071
release for use	-	-	-	-	-	7 952	7 952
reclassification between groups	12	-	86	-	-	29	127
release of provisions					-	10 597	10 597
Gross value as at 31 December 2015	**113 076**	**60 641**	**10 525**	**56**	**51 766**	**1 571**	**237 635**
Depreciation as at 1 January 2015	**65 111**	**69 701**	**8 852**	**53**	**47 463**	**-**	**191 180**
Additions	10 830	4 732	360	3	1 463	-	17 388
depreciation	10 830	4 732	357	3	1 463	-	17 385
other additions	-	-	3	-		-	3
Disposals due to:	4 672	38 031	68	-	1 735	-	44 506
sale		-	-	-	-	-	
liquidation	4 672	38 031	-	-	1 735-	-	44 438
other disposals	-	-	68	-	-	-	68
Depreciation as at 31 December 2015	**71 269**	**36 402-**	**9 144-**	**56**	**47 191-**	**-**	**164 062**
Impairment loss as at 1 January 2015	**2 267**	**-**	**-**	**-**	**--**	**-**	**2 267**
Additions	-	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**2 267**	**-**	**-**	**-**	**-**	**-**	**2 267**
Impairment loss as at 31 December 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net value as at 1 January 2015	**42 300**	**9 874**	**1 311**	**3**	**4 002**	**16 986**	**74 476**
Net value as at 31 December 2015	**41 807**	**24 239**	**1 381**		**4 575**	**1 571**	**73 573**

All tangible fixed assets are held by the Bank and no such assets are used based on a finance lease agreement. In 2015, the Bank used impairment losses of kPLN 1 413 in connection with the implementation of the plans to improve Bank's branches.

21. Deferred tax assets

	31.12.2016		31.12.2015	
(PLN '000)	**Base**	**Asset**	**Base**	**Asset**
Tax rate		**19%**		**19%**
Allowances for credit exposures	320 130	60 825	363 505	69 066
Accrued interest to be paid	45 142	8 577	41 261	7 840
Deferred fee and commission income	425 962	80 933	392 600	74 594
Provisions and deferred insurance income	28 500	5 415	33 261	6 320
Valuation of hedge accounting - ineffective part	4 876	926	8 685	1 650
Accrued expenses	77 186	14 665	59 608	11 325
Impairment losses on other receivables	7 114	1 352	14 649	2 783
Impairment losses on fixed assets	3 097	588	-	-
Tax loss	10 676	2 029	142 011	26 982
Interest accrued on receivables	(60 764)	(11 545)	(63 050)	(11 980)
Interest accrued and discount on securities	(15 377)	(2 922)	773	147
Intangible assets generated internally	(12 531)	(2 381)	(16 722)	(3 177)
Book amortization (tangible assets and intangible assets)	1 122	213	(11 049)	(2 099)
Discount on the deferred consideration from Visa Inc	267	51	-	-
Total – Items to profit and loss	**835 400**	**158 726**	**965 532**	**183 451**
Valuation of hedge accounting – effective part	(988)	(188)	2 447	465
Valuation of securities	1 240	236	(30 084)	(5 716)
Total – Items to revaluation capital	**252**	**48**	**(27 637)**	**(5 251)**
Total	**835 652**	**158 774**	**937 895**	**178 200**

The Bank analyzes the recoverability of the deferred tax assets and in particular the application of provision for credit exposures.

22. Other assets

Structure of other assets

(PLN '000)	31.12.2016	31.12.2015
Accruals, including:	**14 039**	**7 693**
- rents paid in advance	546	719
- insurances paid	1 122	1 340
- IT services	3 913	1 712
- materials purchased but not released for use	5 400	2 754
- other	3 058	1 168
Other assets, of which:	**23 827**	**15 281**
- payment card settlements	767	1 534
- receivables from clients and employees	2 746	1 286
- advances to suppliers and employees	1 690	516
- insurance receivables	9 307	8 134
- loan receivables	7 958	624
- receivables arising from VAT	927	2 817
- other assets	432	370
TOTAL	**37 866**	**22 974**
including financial assets*	**23 395**	**14 911**

**The financial assets item does not include "Accruals" and "Other assets".*

23. Derivative instruments in hedge accounting

(PLN '000)	31.12.2016	31.12.2015
Cash Flow Hedge instrument	8 023	(11 130)
TOTAL	**8 023**	**11 130**

24. Amounts due to banks and financial institutions

(PLN '000)	31.12.2016	31.12.2015
Current accounts	9 997	5 374
Deposits	265 841	263 295
Loans	4 103 976	4 132 894
TOTAL	**4 379 814**	**4 401 563**

Liabilities to other banks and financial institutions – structure by type

(PLN '000)	31.12.2016	31.12.2015
Banks	**4 105 253**	**4 133 904**
Current accounts	1 277	1 010
Loans	4 103 976	4 132 894
Financial institutions	**274 561**	**267 659**
Current accounts	8 720	4 364
Deposits	265 841	263 295
TOTAL	**4 379 814**	**4 401 563**

Liabilities by maturity from the balance-sheet date (face value)

(PLN '000)	31.12.2016	31.12.2015
Up to 1 month	92 343	90 463
Over 1 month to 3 months	99 089	91 337
Over 3 months to 6 months	270 745	36 488
Over 6 months to 1 year	448 673	480 740
Over 1 year to 5 years	1 945 574	2 402 774
Over 5 years	1 505 836	1 281 819
TOTAL	**4 362 260**	**4 383 621**

25. Amounts due to customers

(PLN '000)	31.12.2016	31.12.2015
Current accounts	3 853 040	3 083 156
Fixed-term deposits	2 996 652	2 686 812
TOTAL	**6 849 692**	**5 769 968**

Liabilities to customers – structure by type

(PLN '000)	31.12.2016	31.12.2015
Individuals	**6 849 692**	**5 769 968**
Current accounts	3 853 040	3 083 156
Fixed-term deposits	2 996 652	2 686 812
TOTAL	**6 849 692**	**5 769 968**

Liabilities by maturity (face value)

(PLN '000)	31.12.2016	31.12.2015
Up to 1 month	4 348 260	3 705 144
Over 1 month to 3 months	1 207 181	981 702
Over 3 months to 6 months	581 363	516 663
Over 6 months to 1 year	418 500	348 325
Over 1 year to 5 years	267 991	195 980
Over 5 years	-	-
TOTAL	**6 823 295**	**5 747 814**

26. Amounts due to debt securities

(PLN '000)	31.12.2016	31.12.2015
Amounts due to debt securities issuance		
- Bonds issued by the Bank	490 350	240 459
TOTAL	**490 350**	**240 459**

On 28 June 2016, as part of the Bond Issuance Program, Euro Bank S.A. issued EBK B 28122019 series securities to the total nominal value of MPLN 250. The nominal value of one bond is kPLN 100, and the issue price equals the nominal value of the bonds. The maturity is 3.5 years, and the redemption date falls on December 28th, 2019. The bonds have been offered under public offering. The bonds bear variable interest, payable semi-annually based on a six-month WIBOR plus a margin of 1.2 percent per annum.

The bonds are not traded on the regulated market or alternative trading market. On the issue date the bonds were registered with the National Securities Depository and have the ISIN code: PLEURBK00025. The total nominal value of non-matured bonds issued by the Bank as at 31 December 2016 amounted to MPLN 490.

27. Provisions

(in PLN '000)	Provision for legal claims	Provision for future losses due to concluded agreements	Provision for retirement severance	TOTAL PROVISION
As at 1 January 2016	**697**	**11 105**	**249**	**12 051**
Additions	-	1 750	25	1 775
Use	-	-	-	-
Release	(572)	(9 256)	-	(9 828)
As at 31 December 2016	**125**	**3 599**	**274**	**3 998**

At the end of 2016, the provision for potential claims related to the refund of the price related to the guarantee for sold loan portfolios amounted to MPLN 2.6.

(in PLN '000)	Provision for legal claims	Provision for future losses due to concluded agreements	Provision for retirement severance	TOTAL PROVISION
As at 1 January 2015	**837**	**23 976**	**224**	**25 037**
Additions	-	287	25	312
Use	-	-	-	-
Release	(140)	(13 158)	-	(13 298)
As at 31 December 2015	**697**	**11 105**	**249**	**12 051**

At the end of 2015, the provision for potential claims related to the refund of the price related to the guarantee for sold loan portfolios amounted to MPLN 11.1.

28. Other liabilities

(in PLN '000)	31.12.2016	31.12.2015
Other liabilities, including:	**61 519**	**72 756**
- sundry creditors	34 729	52 930
- interbank settlements	18 843	10 215
- statutory settlements	7 947	9 611
Costs to be paid, including:	**86 490**	**61 515**
- wages and salaries	14 436	13 302
- due to agents' fees	3 151	4 061
- management services	10 723	9 619
- investments	7 125	2 163
- holidays	7 088	7 136
- rents	4 334	828
- card fees	3 251	2 071
- IT and telecommunications services	5 974	3 947
- promotion and advertisement	12 702	5 451
- postal services	1 107	567
- consultancy	4 611	1 426
- collection services	560	-
- other costs to be paid	11 428	10 944
Estimated future returns of remuneration for insurance intermediation and income settled over time, of which:	**28 500**	**33 261**
- estimated future returns of remuneration for insurance intermediation	12 098	15 026
- income on insurance intermediation settled over time	16 402	18 235
TOTAL	**176 509**	**167 532**

29. Subordinated loan

As at 31 December 2016 and 31 December 2015 the Bank had subordinated loans of MPLN 330 based on:

- the agreement of 8 July 2010 to the amount of MPLN 80 (total one-time repayment on 29 March 2017),
- the agreement of 16 August 2012 to the amount of MPLN 50 (total one-time repayment on 5 August 2019),

- the agreement of 17 December 2013 to the amount of MPLN 50 (total one-time repayment on 20 December 2020),
- the agreement of 15 May 2014 to the amount of MPLN 150 (total one-time repayment on 17 May 2021).

The lender is not entitled to demand early repayment of the loan. The loan has a floating interest rate (WIBOR plus margin):

- agreement of 8 July 2010 (WIBOR 3M + 0.91%),
- agreement of 16 August 2012 (WIBOR 3M + 3.78%),
- agreement of 17 December 2013 (WIBOR 3M + 3.08%),
- agreement of 15 May 2014 (WIBOR 3M + 1.602%).

Pursuant to Art. 127 of the Banking Act and to resolutions of the Polish Financial Supervision Authority (PFSA), the loans were classified to Tier 2 capital of the Bank based on the following decisions:

- PFSA decision of 30 July 2010,
- PFSA decision of 27 September 2012,
- PFSA decision of 30 December 2013,
- PFSA decision of 27 May 2014.

(in PLN '000)	31.12.2016	31.12.2015
Subordinated loan gross amount	**331 191**	**331 165**

30. Share capital as at the reporting date

Series	Type	Number of shares	Face value per share	Value of issued shares (PLN '000)
A	Ordinary shares	39 340	13,83	544
B	Ordinary shares	16 000	13,83	221
C	Ordinary shares	6 600	13,83	91
D	Ordinary shares	120 424	13,83	1 666
E	Ordinary shares	28 795	13,83	398
F	Ordinary shares	43 719	13,83	605
G	Ordinary shares	15 076	13,83	209
H	Ordinary shares	158 413	13,83	2 191
I	Ordinary shares	67 926	13,83	939
S	Ordinary shares	1 537 404	13,83	21 262
T	Ordinary shares	3 253 800	13,83	45 000
U	Ordinary shares	7 230 000	13,83	99 991
W	Ordinary shares	2 169 197	13,83	30 000
X	Ordinary shares	723 066	13,83	10 000
Y	Ordinary shares	144 614	13,83	2 000

Z	Ordinary shares	1 446 132	13,83	20 000
L	Ordinary shares	1 300 000	13,83	17 979
M	Ordinary shares	1 301 517	13,83	18 000
N	Ordinary shares	1 663 052	13,83	23 000
O	Ordinary shares	2 386 118	13,83	33 000
	Reduction on the face value of shares		11,29	-60 074
P	Ordinary shares	5 320 995	11,29	60 074
R	Ordinary shares	3 631 533	11,29	41 000
Q	Ordinary shares	4 694 420	11,29	53 000
J	Ordinary shares	3 454 385	11,29	39 000
K	Ordinary shares	2 037 202	11,29	23 000
AA	Ordinary shares	7 085 917	11,29	80 000
Total		**49 875 645**	**11,29**	**563 096**

As at 31 December 2016, Societe Generale Consumer Finance SA belonging to the Societe Generale Group, which held 49,859,231 shares and votes at the General Shareholders' Meeting, i.e. 99.97% of all shares and votes, was the only shareholder that held over 5% of the Bank's shares.

a. Preference shares and limitation of rights associated with shares

The Bank's shares are not associated with any preferences and limitations.

b. Own shares held by the Bank or its subsidiaries, co-subsidiaries and associates

As at 31 December 2016 and 31 December 2015, the Bank did not hold any own shares.

31. Supplementary capital (funds)

(in PLN '000)	**31.12.2016**
As at 1 January 2016	**636 338**
Allocation of profit for previous years	134 444
TOTAL	**770 782**

(in PLN '000)	**31.12.2015**
As at 1 January 2015	**401 598**
Allocation of profit for previous years	234 739
Rounding difference	1
TOTAL	**636 338**

32. Revaluation reserve

(in PLN '000)	**31.12.2016**

As at 1 January 2016	22 387
Net profit (loss) on revaluation of financial assets available for sale	(23 766)
including deferred tax	5 576
Net profits (losses) on valuation of derivative instruments hedging cash flows	656
including deferred tax	(154)
TOTAL	**(723)**

(in PLN '000)	**31.12.2015**
As at 1 January 2015	(7 719)
Net profit (loss) on revaluation of financial assets available for sale	24 332
including deferred tax	(5 782)
Net profits (losses) on valuation of derivative instruments hedging cash flows	5 774
including deferred tax	(1 354)
TOTAL	**22 387**

33. Operating lease

a) income and expenses due to operating leases – lessor (computer hardware lease)

(in PLN '000)	**2016**	**2015**
Operating lease income	25	39
Operating lease expenses	14	29

b) maturity dates of operating leases – lessor (computer hardware lease)

Maturity dates *(in PLN '000)*	**31.12.2016**	**31.12.2015**
Up to 1 year	16	21
1 to 5 years	38	62
Over 5 years	-	-

c) income and expenses due to operating leases – lessee (vehicle lease)

(PLN '000)	**2016**	**2015**
Operating lease expenses (lease payments - rents)	5 130	4 828
Operating lease expenses (lease payments - maintenance service)	1 564	1 858

d) maturity dates of operating leases – lessee (vehicle lease)

Maturity dates *(in PLN '000)*	**31.12.2016**	**31.12.2015**
Lease payments		
Up to 1 year	3 691	2 877
1 to 5 years	3 181	9 355
Over 5 years	-	-
Maintenance fees		
Up to 1 year	1 264	1 050

1 to 5 years	1 083	3 285
Over 5 years	-	-
TOTAL	**9 219**	**16 567**

e) income and expenses due to operating leases – lessee (rents)

(PLN '000)	2016	2015
Operating lease expenses (lease payments)	56 258	56 608

f) maturity dates of operating leases – lessee (rents)

Maturity dates *(in PLN '000)*	31.12.2016	31.12.2015
Up to 1 year	36 245	40 335
1 to 5 years	81 262	106 681
Over 5 years	16 593	2 329
TOTAL	**134 100**	**149 345**

Operating lease agreements relate to lease of functional movables and real properties under normal operations.
All agreements are concluded with market terms and conditions, without special or non-standard provisions.

RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

34. Risk management at the Bank

a) Basic assumptions of the risk management system at Euro Bank S.A.

Pursuant to Art. 9(3) of the Banking Act (Journal of Laws of 2002 No. 72, item 665, as amended), the requirements under Resolution no. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 (as amended) and relevant recommendations of the Polish Financial Supervision Authority, Euro Bank S.A. has in place a risk management system, developed by the Management Board and approved by the Supervisory Board (last update on 21 July 2016).
The objectives of the risk management system are to identify, measure or estimate, assess, control, monitor and report risks in the Bank's operations, which ensure correctness of the process of setting and achieving detailed objectives of the Bank's business activity.
The risk management system at Euro Bank is based on:

- the Bank's appropriate organizational structure adjusted to the size and profile of the incurred risk and a division of roles, which ensures the independence of risk identification, measurement or estimation, assessment, control, monitoring and reporting from the operating activity giving rise to the Bank's exposure to risks,
- strategies, policies/procedures updated systematically and describing the distribution of responsibilities in line with the Bank's organizational structure, risk management process, tools supporting the risk management process, the principles governing cooperation between units as well as other rules aimed at ensuring proper operation of the risk management system implemented by the Bank,
- periodic information, approved by the Management Board and passed to the Supervisory Board, which presents the types and size of risk in the Bank's operation in a reliable, clear and synthetic way.

The risk management at Euro Bank is compliant with the Polish law and the requirements of supervision authorities.

b) The organizational structure and the role of individual organizational units in the management of risks associated with the activities of the Bank

Role of the Management Board and Supervisory Board of Euro Bank S.A.

The Bank's Management Board monitors, on an ongoing basis, the risks the Bank is or may be exposed to. The Management Board takes relevant actions to adjust the Bank's organizational structure to effectively manage all risk types. Considering the scope of the Bank's operations, the Management Board adapts relevant procedures which are a basis for performing the Bank's activity and managing risks. The Management Board is responsible for preparing and, upon approval of the Supervisory Board, implementing the Bank's strategy.

The Management Board delegates the management of individual risk types to relevant organizational units of the Bank. In its activities, the Management Board also relies on opinions of established committees and on results of audits provided by the Internal Audit Department and independent auditors.

The Supervisory Board supports the Management Board in effective management of the Bank. The Supervisory Board in particular approves the Bank's strategy and the organizational structure adjusted to the scale of activities and risks.

Based on periodic reports presented by relevant units, the Management Board and the Supervisory Board monitor risks to borne by the Bank and their evolution over time.

List of risks in the Bank's activity

The Management Board of Euro Bank approves and updates the list of risks related to the Bank's activity. The current list of risks includes:

- Credit and counterparty risk, including residual risk and concentration risk,
- Market risk,
- Interest rate risk,
- Liquidity risk,
- Operational risk,
- Compliance risk, including reputation risk,
- Risk related to changes in macroeconomic conditions, including systemic risk,
- Excessive financial leverage risk,
- Model risk,
- Capital risk,
- Bancassurance risk.

The following section of the statements describes the credit and counterparty risks, the concentration risk, the market risk, the interest rate risk, the liquidity risk and the operational risk.

35. Credit and counterparty risks management

Credit and counterparty risk is the risk of financial loss incurred due to insolvency of borrowers or counterparties. In granting loans and developing new advanced financing methods, the Bank incurs the risk of the borrower failing to repay the loan or other liability in the agreed period. The Bank is always exposed to this type of risk, irrespective of the form of financing. The risk results mainly from the clients' inability to fulfill their obligations towards the Bank, arising from deterioration in their financial position.
Insolvency risk is assessed by the Bank based on application and behavioral scoring.
Scoring assigned to a particular borrower / transaction allows the Bank to determine the probability of the borrower's default.

Identification of default events

The list of default events specified by the Bank complies with the requirements of the New Capital Accord and is identical with the list of circumstances indicating impairment as defined in IAS 39 "Financial Instruments – Recognition and Measurement" as well as the provisions of the "Recommendation R" issued by the Polish Financial Supervision Authority.

The list of objective evidence (events of default) takes into consideration both quantitative and qualitative data, including:

- overdue amount over 90 days on the borrower's account,
- significant deterioration in the economic and financial position of the borrower or occurrence of other factors which constitute a threat to the repayment of receivables,
- restructuring involving the Bank entering into an arrangement with the borrower, for economic or legal reasons related to the counterparty's difficult financial position which would not be otherwise entered into; in particular, in the event of a delay over 30 days within the period prior to the restructuring,
- identification of fraud or obtaining / attempt to obtain a loan under false pretences,
- bringing a legal action to court to obtain a writ of execution,
- expiry of the loan agreement notice period.

Measurement is determined by event identification combined with the size of the credit exposure.

Measurement of credit exposures with respect to impairment.

The Bank's principles for measuring impairment of credit exposures are based on the principles of the International Accounting Standards, the International Financial Reporting Standards and Recommendation R issued by the Polish Financial Supervision Authority.

For the purposes of measurement the entire credit portfolio was divided into the following sub-portfolios:

- individual (individual material exposures with indications of impairment),
- collective (exposures with indications of impairment, immaterial individually).

The division into homogenous groups was based on:

- product type;
- loan currency (for mortgage loans);
- LTV (for mortgage loans).

Calculation of capital requirement due to credit risk

The Bank applies a standard method of calculating the capital requirement due to credit risk.

Credit risk management system components

The credit risk management system consists of the following components:

- strategy, policies and procedures;
- credit process organization;
- credit risk assessment, scoring system;
- credit risk mitigation;
- credit risk monitoring.

Credit risk monitoring

The Bank's credit risk is monitored and quantified in a regular process based mainly on an efficient classification system, including appropriate procedures and tools, i.e. the rating system, the early warning system and a mechanism for identification and designation of events of default. The respective procedures are applied to both exposures classified as normal and exposures at risk subject to restructuring and collection. Additionally, the accepted collateral (its value and certainty of use) is subject to ongoing monitoring.

a) structure of amounts due from clients by the past-due period

Past-due receivables (total)

Past-due period ***(in PLN '000)***	**Gross value as at 31.12 2016**	**Gross value as at 31.12 2015**
Repaid on a timely basis	10 397 424	9 598 975
1 to 30 days	659 177	603 749
30 to 90 days	201 263	210 325
Total healthy and up to 90 days past due receivables	**11 257 864**	**10 413 049**
90 to 180 days	93 350	76 640
180 days to 1 year	102 842	92 332
1 to 2 years	166 854	173 386
2 to 3 years	148 273	142 325
3 to 5 years	166 905	183 978
Over 5 years	77 716	81 182
Total receivables over 90 days past due	**755 940**	**749 843**
Total	**12 013 804**	**11 162 892**

Non-impaired past-due receivables

Past-due period ***(in PLN '000)***	**Gross value as at 31.12 2016**	**Gross value as at 31.12 2015**
1 to 30 days	587 763	540 063
30 to 90 days	145 327	140 653
Total receivables up to 90 days past due	**733 090**	**680 716**
90 to 180 days	-	-
180 days to 1 year	-	-
1 to 2 years	-	-
2 to 3 years	-	-
3 to 5 years	-	-
Over 5 years	-	-
Total receivables over 90 days past due	**-**	**-**
Total	**733 070**	**680 716**

b) collaterals

(PLN '000)	**31.12. 2016**	**31.12. 2015**
Fair value of credit collaterals	8 729 993	7 651 179

The Bank uses additional collateral to improve the terms of financing in the scope of:

- retail loans – life and non-life insurance,
- mortgage loans – capped mortgage or life and non-life insurance.

The Bank does not use other credit collaterals, e.g. credit derivatives.

The most important security for the Bank's credit portfolio are real property mortgage collaterals. The Bank assesses the value of any collateral by examining documents submitted by borrowers, analyzing the valuation carried out by independent experts, and internal and external databases.

For mortgage collaterals the Bank monitors the LTV ratio (loan-to-value ratio), including regularly updated collateral value and the current value of the exposure.

c) debt restructuring

Through the restructuring process, the Bank allows customers to handle the loan properly. The restructuring process is carried out as a result of annexing the original non-terminated loan agreement. Restructuring applies to credits extended to individuals.

Restructuring is carried out at the request of the customer, and may by proposed to the customer by the Bank. The Bank proposes the customer a relevant restructuring offer allowing him/her the handle their liabilities in a timely manner. Restructuring covers debt obligations of customers whose economic and financial or personal situation deteriorated upon receiving the restructured loan.

The restructuring process is carried out based on approved rules determining, among others, the following:

- the circumstances giving ground to restructuring,
- the terms of the agreement that may by changed and to what extent,
- credit capacity assessment methodology for customers subject to restructuring, and
- the credit history a customer should have to start restructuring negotiations.

In the restructuring process during the term of the agreement, the Bank allows the customer to reschedule the loan by:

- prolongation of repayments (from 1 to 6 months),
- reduction the amount of installments for a period of max. 12 months,
- changing the installment date.

The decision on restructuring is preceded by a financial analysis of the customer's situation and supported by a statistical model selecting customers eligible for restructuring.

Restructured loans, which within 3 months preceding the restructuring were delayed by at least 30 days, are classified as impaired loans. The reclassification of such loans to non-impaired loans is possible in the event the total debt is repayed after a one-year quarantine. Reclassified loans are subject to a 2-year observation period. A delay of more than 30 days in this period leads to the reclassification of the loan to the impaired loans category. The portfolio of such loans constitutes a homogeneous group, for which the Bank estimates separate LGD1 parameters – migration from the impairment status to termination.

The write-offs for restructured loans are estimated using statistical models, taking into account the characteristics of this portfolio.

Structure of restructured receivables by risk groups

(in PLN '000)	31.12.2016	31.12.2015
Gross value		
Non-impaired receivables	35 610	15 947
Impaired receivables	247 281	239 050
Gross total	**282 891**	**254 997**
Impairments	**(85 491)**	**(82 382)**
impairment loss for non-impaired receivables	(319)	*(91)*
impairment loss for impaired receivables	(85 172)	*(82 291)*
Net receivables	**197 400**	**172 615**

Impact on interest income - restructured receivables

(PLN '000)	2016	2015
Non-impaired loans	2 706	2 089
Impaired loans	14 807	10 608
TOTAL	**17 513**	**12 697***

**transformed data*

Exposure of the Bank by geographical segments for restructured receivables (receivables from customers - gross value)

Region	31.12.2016 (%)	31.12.2015 (%)
Dolnośląskie	9	9
Kujawsko-Pomorskie	6	7
Lubelskie	3	3
Lubuskie	2	2
Łódzkie	7	7
Małopolskie	7	7
Mazowieckie	17	16

Opolskie	3	2
Podkarpackie	2	2
Podlaskie	2	2
Pomorskie	8	8
Śląskie	15	15
Świętokrzyskie	2	2
Warmińsko-Mazurskie	4	4
Wielkopolskie	8	9
Zachodniopomorskie	5	5
TOTAL	**100**	**100**

In 2016, the portfolio of impaired restructured receivables did not contain receivables from settlements concluded after the termination of the loan.

Impaired receivables gross value (in PLN '000) as at 1 January 2016	239 051
Additions due to change of risk groups	102 383
Disposals due to reclassification to the non-impaired group	(40 635)
Disposal due to exclusion from the portfolio of settlements after termination	(47 796)
Disposals:	(5 722)
- due to portfolio sale	(667)
- remission and transfer to off-balance sheet	(132)
- due to repayments	(4 923)
Impaired receivables gross value (in PLN '000) as at 31 December 2016	**247 281**

Impaired receivables gross value (in PLN '000) as at 1 January 2015	59 179
Additions due to change of risk groups	16 219
Additions due to changes in the methodology	191 255
Disposals:	(27 602)
- due to portfolio sale	(368)
- remission and transfer to off-balance sheet	(432)
- due to repayments	(26 802)
Impaired receivables gross value (in PLN '000) as at 31 December 2015	**239 051**

d) max. credit risk exposure

Statement of financial position items (PLN '000)	31.12.2016	31.12.2015
Funds on the account in Central Bank	27 237	209 525
Amounts due from banks	132 793	127 694
Amounts due from customers	11 397 855	10 540 466
Financial assets available for sale – debt securities	1 748 931	1 004 703
issued by the Central Bank	210 880	1 004 703
treasury	1 453 291	-
other	84 760	-
Other assets	23 395	14 911
TOTAL	**13 330 211**	**11 897 299**

Off-balance sheet items (PLN '000)	31.12.2016	31.12.2015
Granted financial liabilities	331 094	501 367
TOTAL	**331 094**	**501 367**

36. Concentration risk management

Concentration risk - which may exert a material influence on the stability and security of the Bank's operations is the risk of non-fulfillment of obligation(s) by individual entities and groups of entities, in the case of which the probability of default depends on the same factors.
Due to the nature and large diversification of the credit portfolio, the Bank has established the following limits within the exposure concentration management policy:

Inter-bank portfolio

Limits approved by the Management Board of the Bank apply; limits defined taking into account the restrictions under external provisions relating to the maximum exposure per counterparty or group of counterparties.

Credit portfolio

1) Limit for a single exposure/single borrower. Due to the characteristics of the Bank, the following limits apply: 1/20 limit of a large exposure defined in CRR. The maximum credit exposure amounts to 0.5% of the Bank's equity.
2) Concentration limits in the portfolio are defined based on the Bank's business strategy, among other, the Financial Plan approved by the Management Board and Supervisory Board of the Bank. The limits are defined based on the identification of concentration risk in the portfolio and are regularly reviewed. In particular, they relate to the structure of the portfolio, the share of the population with a higher than average level of risk in the portfolio, or populations exposed to increased risk in the event of shock.

As at 31 December 2016, the equity, which serves as the basis for defining large exposure limits, in accordance with Article 395 of CRR amounted to kPLN 1 469 544 (as at 31 December 2015: kPLN 1 405 008). No concentration limits were exceeded as at 31 December 2016 for the exposures of the Bank against retail customers for granted loans and credits, and against another domestic bank, credit institution, foreign bank or a group of entities related by capital or organization.

Exposure of the Bank by geographical segments (receivables from customers - gross value)

Region	31.12.2016 (%)	31.12.2015 (%)
Dolnośląskie	11	11
Kujawsko-Pomorskie	6	6
Lubelskie	3	3
Lubuskie	3	3
Łódzkie	6	6
Małopolskie	7	7
Mazowieckie	14	14
Opolskie	2	2
Podkarpackie	3	3
Podlaskie	2	2
Pomorskie	8	8
Śląskie	15	16
Świętokrzyskie	2	2
Warmińsko-Mazurskie	3	3
Wielkopolskie	9	9
Zachodniopomorskie	6	5
TOTAL	**100**	**100**

37. Interest rate risk management

Interest rate risk results from the exposure of the Bank to adverse impact of interest rate fluctuations. The Bank has no trading portfolio and interest rate risk is fully generated by the banking portfolio..

It is assumed that interest rate risk management is aimed at limiting changes to the Bank's financial result sensitive to changes in interest rates (NII) and the economic value of capital (EVC) to a level which does not constitute a threat to the Bank's security. The objective is achieved through the optimization of the structure of the Bank's balance sheet, off-balance sheet items and interest margin. In order to ensure effective interest rate risk management, the Bank is supported by hedge accounting mechanisms.

Interest bearing items split by type of the rate as at 31 December 2016 are presented in the table below.

	Fixed interest rate	Variable interest rate	Rate managed by the Bank	Total
Interest bearing assets	**52%**	**46%**	**2%**	**100%**
Non-financial sector	39%	46%	2%	**87%**
Financial sector	13%	0%	0%	**13%**
Interest bearing liabilities	**30%**	**38%**	**32%**	**100%**
Non-financial sector	30%	2%	32%	**64%**
Financial sector	0%	36%	0%	**36%**

Interest bearing items split by type of the rate as at 31 December 2015 are presented in the table below.

	Fixed interest rate	Variable interest rate	Rate managed by the Bank	Total
Interest bearing assets	**50%**	**48%**	**2%**	**100%**
Non-financial sector	40%	48%	2%	**90%**
Financial sector	10%	0%	0%	**10%**
Interest bearing liabilities	**33%**	**38%**	**29%**	**100%**
Non-financial sector	22%	1%	29%	**52%**
Financial sector	11%	37%	0%	**48%**

The assessment of the overall exposure to the interest rate risk in the banking portfolio is based on the analysis or risk of a mismatch of the dates of restatement, base risk and client's option risk.

Gap analysis of assets/liabilities and off-balance sheet liabilities by interest rate revaluation as at 31 December 2016 (in PLN '000)

ASSETS	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	NIB*	Total
Cash and balances with Central Bank	26 952	-	-	-	-	-	-	76 334	**103 286**
Amounts due from banks	18 616	24	42 000	-	-	70 000	-	2 153	**132 793**
Amounts due from customers	903 497	6 214 094	671 609	1 034 025	1 297 098	1 434 156	292 685	(449 309)	**11 397 855**
Financial assets held as investment	760 900	-	-	200 000	200 000	500 000	90 000	5 050	**1 755 950**
Other assets	-	-	-	-	-	-	-	318 894	**318 894**
TOTAL ASSETS	**1 709 965**	**6 214 118**	**713 609**	**1 234 025**	**1 497 098**	**2 004 156**	**382 685**	**(46 878)**	**13 708 778**

**NIB – non-interest bearing items*

OFF-BALANCE LIABILITIES GRANTED	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	NIB*	Total
Derivatives	54 418	90 000	800 000	-	-	-	-	-	**944 418**

**NIB – non-interest bearing items*

LIABILITIES	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	NIB*	Total
Amounts due to banks and financial institutions	967 968	2 717 369	70 271	307 500	204 282	44 870	50 000	17 554	**4 379 814**
Amounts due to bond issuance	-	-	490 000	-	-	-	-	350	**490 350**
Amounts due to customers	1 671 052	2 139 977	1 433 728	864 330	336 398	258 243	119 566	26 398	**6 849 692**
Other liabilities	-	-	-	-	-	-	-	182 594	**182 594**
Subordinated debt	-	330 000	-	-	-	-	-	1 191	**331 191**
Equity	-	-	-	-	-	-	-	1 475 137	**1 475 137**
TOTAL EQUITY AND LIABILITIES	**2 639 020**	**5 187 346**	**1 993 999**	**1 171 830**	**540 680**	**303 113**	**169 566**	**1 703 224**	**13 708 778**

**NIB – non-interest bearing items*

OFF-BALANCE LIABILITIES RECEIVED	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	NIB*	Total
Derivatives	4 388	-	-	-	200 000	650 000	90 000	-	**944 388**

**NIB – non-interest bearing items*

Duration gaps									
PLN gap	(325 249)	602 432	(494 513)	51 352	745 001	1 041 583	119 728	(1 740 306)	28
CHF gap	(557 135)	514 340	14 123	10 843	11 417	9 460	3 391	(6 438)	1
EUR gap	7 646	-	-	-	-	-	-	(7 694)	(48)
USD gap	(4 287)	-	-	-	-	-	-	4 336	49
TOTAL	**(879 025)**	**1 116 772**	**(480 390)**	**62 195**	**756 418**	**1 051 043**	**123 119**	**(1 750 102)**	**30**

Gap analysis of assets/liabilities and off-balance sheet liabilities by interest rate revaluation as at 31 December 2015 (in PLN '000)

ASSETS	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	NIB*	Total
Cash and balances with Central Bank	209 525	-	-	-	-	-	-	56 916	**266 441**
Amounts due from banks	13 515	24	-	-	42 000	70 000	-	2 155	**127 694**
Amounts due from customers	666 996	6 044 463	752 329	993 711	1 213 137	1 172 742	108 824	(411 736)	**10 540 466**
Financial assets held as investment	1 005 000	-	-	-	-	-	-	29 795	**1 034 795**
Other assets	-	-	-	-	-	-	-	320 737	**320 737**
TOTAL ASSETS	**1 895 036**	**6 044 487**	**752 329**	**993 711**	**1 255 137**	**1 242 742**	**108 824**	**(2 133)**	**12 290 133**

*NIB – non-interest bearing items

OFF-BALANCE LIABILITIES GRANTED	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	NIB*	Total
Derivatives	-	-	570 000	-	-	-	-	-	**570 000**

*NIB – non-interest bearing items

LIABILITIES	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	NIB*	Total
Amounts due to banks and financial institutions	838 225	2 729 994	25 147	239 333	393 439	157 482	-	17 943	**4 401 563**
Amounts due to bond issuance	-	-	240 000	-	-	-	-	459	**240 459**
Amounts due to customers	2 097 798	1 514 346	898 230	835 800	371 983	29 357	300	22 154	**5 769 968**
Other liabilities	-	-	-	-	-	-	-	190 713	**190 713**
Subordinated debt	-	330 000	-	-	-	-	-	1 165	**331 165**
Equity	-	-	-	-	-	-	-	1 356 265	**1 356 265**
TOTAL EQUITY AND LIABILITIES	**2 936 023**	**4 574 340**	**1 163 377**	**1 075 133**	**765 422**	**186 839**	**300**	**1 588 699**	**12 290 133**

*NIB – non-interest bearing items

OFF-BALANCE LIABILITIES RECEIVED	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	NIB*	Total
Derivatives	-	-	220 000	-	-	350 000	-	-	**570 000**

*NIB – non-interest bearing items

Duration gaps									
PLN gap	(473 873)	959 840	(81 652)	(91 997)	464 918	687 878	104 410	(1 569 468)	56
CHF gap	(575 000)	510 308	20 604	10 576	24 797	18 025	4 113	(13 442)	(19)
EUR gap	7 865	-	-	-	-	-	-	(7 922)	(57)
USD gap	20	-	-	-	-	-	-	-	20
TOTAL	**(1 040 988)**	**1 470 148**	**(61 048)**	**(81 421)**	**489 715**	**705 903**	**108 523**	**(1 590 832)**	**(0)**

A gap analysis of interest rates, understood as the difference between the value of assets (increased by extended off-balance sheet items) and liabilities (increased by received off-balance sheet items) subject to interest rate changes in the same period, is carried out based on realigned restatement dates. The mismatch thus determined is used to determine the economic sensitivity of equity to leap shifts of the market interest rate curve by 100 bps. The Bank limits the sensitivity of net interest income in the horizon of 12 months to the increase in interest rates by 100 bps. As at 31 December 2016, the above measures were as follows:

CHANGE IN ECONOMIC CAPITAL in %	NET INTEREST INCOME SENSITIVITY in %
-3,1%	0,22%

For comparison purposes, the above items as at 31 December 2015 were as follows:

CHANGE IN ECONOMIC CAPITAL in %	NET INTEREST INCOME SENSITIVITY in %
-2,4%	0,05%

The measures that illustrate the scale of the structural mismatch of revalued PLN assets and liabilities at predetermined intervals in the cross-section of the full term structure of the balance sheet are presented below. The exposure value is calculated in static terms based on the realigned gaps report covering balance sheet and off-balance sheet items sensitive to the interest rate as the ratio of said gap in a given time interval to total assets. CHF exposures have not been covered by limits due to the fact that the asset portfolio is fully covered by funding under the CHF line with the same interest rate type – CHF assets and liabilities are repriced in the period up to 3 months.

As at 31 December 2016, the above measures were as follows:

GAP IN TOTAL ASSETS (%)		
<=1Y	(1Y – 5Y>*	>5Y
-1,2%	3,3%	0,9%

Average annual gap

For comparison purposes, the above items as at 31 December 2015 were as follows:

GAP IN TOTAL ASSETS (%)		
<=1Y	(1Y – 5Y>*	>5Y
2,5%	2,3%	0,8%

Average annual gap

The Bank regularly performs stress tests designed to evaluate the potential loss in scenarios assuming extremely adverse changes in the level of interest rates (historical and hypothetical scenarios).

38. Currency risk management

Currency risk is the risk of a deterioration of the financial position due to unfavorable changes in the exchange rates. At the Bank, the risk is generated by a mismatch of assets and liabilities. The Bank does not conduct foreign currency transactions in cash with customers and it does not operate current and deposit accounts in foreign currencies. The Bank's currency risk is related mainly to mortgage loans denominated in a foreign currency. The Bank's policy provides for financing new loans based on liabilities denominated in the same currency, which allows the Bank to minimize the currency risk and the currency liquidity risk. Foreign currency items result from foreign currency liabilities and receivables resulting from the Bank's own operations.

On each business day the Bank measures the exposure to currency risk by applying standard supervisory requirements involving the determination of the ratio of overall position to equity.

The Bank has adopted limits for currency positions as at the end of the day for three currencies: EUR, USD and CHF and for the total foreign-exchange position denominated in PLN. The assessment of the exposure to foreign currency risk is supported by using Value at Risk (VaR).

Statement of FX financial position as at 31 December 2016

	CURRENCY			
(in '000)	**CHF**	**EUR**	**USD**	**Currency conversion in PLN**
ASSETS				
Amounts due from banks	1 817	1 737	24	15 266
Amounts due from customers	323 328			1 331 238
Other assets		548	1 680	9 446
TOTAL ASSETS	**325 145**	**2 285**	**1 704**	**1 355 950**
LIABILITIES				
Amounts due to banks and financial institutions	325 030	-	-	1 338 246
Other liabilities	115	1 971	-	9 193
Total liabilities	**325 145**	**1 971**	**-**	**1 347 439**

	CURRENCY			
(in '000)	**CHF**	**EUR**	**USD**	**Currency conversion in PLN**
OFF-BALANCE SHEET				
Current currency operations	-	-	-	-
Derivatives	-	-	1 050	4 388
Other liabilities	-	325	650	4 154
TOTAL OFF-BALANCE SHEET	**-**	**325**	**1 700**	**8 542**

Values in foreign currencies have been converted into PLN according to table no. 252/A/NBP/20156 as at 30 December 2016.

Statement of FX financial position as at 31 December 2015

	CURRENCY			
(in '000)	**CHF**	**EUR**	**USD**	**Currency conversion in PLN**
ASSETS				
Amounts due from banks	806	1 855	5	11 100
Amounts due from customers	346 329			1 364 328
Other assets		7 058		30 078
TOTAL ASSETS	**347 135**	**8 913**	**5**	**1 405 506**
LIABILITIES				
Amounts due to banks and financial institutions	347 026	1 868	-	1 375 035
Other liabilities	114	-	-	449
Total liabilities	**347 140**	**1 868**	**-**	**1 375 484**

	CURRENCY			
(in '000)	**CHF**	**EUR**	**USD**	**Currency conversion in PLN**
OFF-BALANCE SHEET				
Current FX transactions (received)	-	-	-	-
Derivatives (received)	-	-	-	-
Other liabilities received	-	-	-	-
TOTAL OFF-BALANCE SHEET	**-**	**-**	**-**	**-**

Values in foreign currencies have been converted into PLN according to table no. 254/A/NBP/2015 as at 31 December 2015.

Bank's foreign-exchange position and foreign-exchange position to equity ratio:

Year 2016

Foreign-exchange position			**Total foreign-exchange position**	**Own funds**	**Total foreign-exchange position to equity ratio**
'000 CHF	**'000 EUR**	**'000 USD**	**'000 PLN**	**'000 PLN**	**'000 PLN**
0	-11	4	-31	1 469 544	0,00%

Year 2015

Foreign-exchange position			**Total foreign-exchange position**	**Own funds**	**Total foreign-exchange position to equity ratio**
'000 CHF	**'000 EUR**	**'000 USD**	**'000 PLN**	**'000 PLN**	**'000 PLN**
-5	7 045*	5	30 040	1 405 008	2,14%

* *item resulting from the revaluation of Visa Europe shares*

The Bank regularly performs stress tests designed to evaluate the potential loss in scenarios assuming extremely adverse changes in exchange rates (historical and hypothetical scenarios).

39. Liquidity risk management

The Bank's liquidity is the ability to generate positive balance of cash flows within a specified time horizon. The liquidity risk is the effect of everyday activities of the Bank in line with statutory activities. Daily transactions lead to changes in the structure of the balance sheet, due dates and maturity of its components. Liquidity risk is characterized by two basic factors:

- market liquidity risk – risks related to the situation when the an item of assets cannot be liquidated in a short time without a significant impact on the price,
- funding risk – risks associated with the inability to obtain new or renew the current funding.

The objective of the Bank's liquidity policy is to ensure safe and effective structure of assets and liabilities and off-balance sheet items and prevent a crisis so that at any given time it can settle its liabilities, i.e. make payments to deponents and settle credit liabilities.

The main funding sources used by the Bank include retail deposits and long-term funds from the main shareholder, and the funding received as a result of bond issuance on the local market. Additionally, the Bank acquires funds in the interbank market. Liquidity reserves maintained by the Bank on an ongoing basis enable it to secure funds necessary to fulfill its payment obligations in the event of e.g. seasonal outflow of deposits or credit activity dynamics incommensurate with the increase in deposits.

Liquidity management is supported by limits, control mechanisms and cross-section management information prepared for the management at various levels. It also includes, in particular, the requirements under the PFSA Resolution no. 386/2008 in terms of calculation and monitoring of supervisory liquidity measures on a daily basis. Furthermore, in accordance with the obligations and principles set out in the Regulation (EU) No 575/2013 of the European Parliament and of the Council, the Bank calculates the LCR (Liquidity Coverage Ratio) - a short-term liquidity measure aimed at ensuring that the Bank has an appropriate level of high-quality liquid assets, which will cover liquidity needs in a period of 30 calendar days in stressed conditions, and the NSFR (Net Stable funding ratio) - a measure of long-term liquidity aimed at ensuring a minimum level of available funding in the medium and long term. In accordance with the provisions of CRR, the liquidity coverage requirement is introduced in stages from 2015 (60%). The target level of 100% will be introduced as of 1 January 2018.

The Bank also monitors the liquidity gaps with realigned maturity and due dates of individual items. Available funds are invested mainly in safe and liquid treasury securities, securities of the National Bank of Poland and short-term inter-bank deposits. The limits related to permitted investments are reviewed every quarter.

The Bank regularly performs stress tests for the estimation of potential losses assuming extremely adverse scenarios affecting the liquidity position of the Bank.

The following table presents the regulatory liquidity measures as at 31 December 2016 and 31 December 2015

Liquidity ratios		2016.12.31	2015.12.31
M2	Short-term liquidity ratio	3,27	3,56
M4	Coverage of illiquid assets and assets of limited liquidity with own funds and stable external funds	1,09	1,04
LCR	Net outflows coverage ratio	231%	186%
NSFR	Net stable funding ratio	122%	120%

Gap analysis of assets/liabilities and off-balance sheet liabilities by realigned maturity/due date as at 31 December 2016 (in PLN '000)

ASSETS	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Cash and balances with Central Bank	(185 529)	46 945	32 778	44 588	55 879	74 671	33 954	**103 286**
Amounts due from banks	18 623	24	43 195	963	-	69 988	-	**132 793**
Amounts due from customers	226 991	331 554	474 708	1 002 950	1 758 010	3 146 560	4 457 082	**11 397 855**
Financial assets held as investment	1 748 931	-	-	-	-	-	7 019	**1 755 950**
Other assets	46 795	23 763	33 742	63 351	64 235	81 510	5 498	**318 894**
TOTAL ASSETS	**1 855 811**	**402 286**	**584 423**	**1 111 852**	**1 878 124**	**3 372 729**	**4 503 553**	**13 708 778**

OFF-BALANCE LIABILITIES GRANTED	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Unused credit limits of customers*	(24 262)	(550)	536	2 556	3 991	9 633	8 096	**(0)**
Other	-	-	-	-	-	-	-	-

LIABILITIES	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Amounts due to banks and financial institutions	96 287	104 004	272 407	451 676	713 705	1 235 899	1 505 836	**4 379 814**
Amounts due to bond issuance	-	-	900	-	239 764	249 686	-	**490 350**
Amounts due to customers	440 349	960 819	730 662	999 531	1 254 956	1 689 490	773 885	**6 849 692**
Other liabilities	66 154	28 909	29 369	43 818	6 797	6 697	850	**182 594**
Subordinated debt	-	81 191	-	-	-	250 000	-	**331 191**
Equity	(723)	-	-	-	-	-	1 475 860	**1 475 137**
TOTAL EQUITY AND LIABILITIES	**602 067**	**1 174 923**	**1 033 338**	**1 495 025**	**2 215 222**	**3 431 772**	**3 756 431**	**13 708 778**

OFF-BALANCE LIABILITIES RECEIVED	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Cumulative gap	1 229 482	456 295	7 916	(372 701)	(705 808)	(755 218)	(0)	-
Liquidity ratio	3,04	1,26	-	-	-	-	-	-

Gap analysis of assets/liabilities and off-balance sheet liabilities by realigned maturity/due date as at 31 December 2015 (in PLN '000)

ASSETS	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Cash and balances with Central Bank	15 124	34 774	34 003	49 710	51 233	57 943	23 654	**266 441**
Amounts due from banks	13 518	24	1 203	969	41 993	69 987	-	**127 694**
Amounts due from customers	202 276	296 042	459 271	974 396	1 728 361	2 856 507	4 023 613	**10 540 466**
Financial assets held as investment	1 004 703	-	-	30 092	-	-	-	**1 034 795**
Other assets	41 662	33 781	36 817	64 709	57 729	73 418	12 621	**320 737**
TOTAL ASSETS	**1 277 283**	**364 621**	**531 294**	**1 119 876**	**1 879 316**	**3 057 855**	**4 059 888**	**12 290 133**

OFF-BALANCE LIABILITIES GRANTED	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total

Unused credit limits of customers*	(10 367)	(1 704)	(885)	(259)	1 492	6 348	5 375	**(0)**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

LIABILITIES	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Amounts due to banks and financial institutions	98 101	106 268	27 940	484 211	773 309	1 629 915	1 281 819	**4 401 563**
Amounts due to bond issuance	-	-	815	-	-	239 644	-	**240 459**
Amounts due to customers	408 513	676 801	725 621	1 085 372	1 110 223	1 256 601	506 837	**5 769 968**
Other liabilities	82 421	38 671	35 252	17 931	8 233	7 727	478	**190 713**
Subordinated debt	-	1 165	-	-	80 000	100 000	150 000	**331 165**
Equity	(1 984)	-	-	24 371	-	-	1 333 878	**1 356 265**
TOTAL EQUITY AND LIABILITIES	**587 051**	**822 905**	**789 628**	**1 611 885**	**1 971 765**	**3 233 887**	**3 273 012**	**12 290 133**

OFF-BALANCE LIABILITIES RECEIVED	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Cumulative gap	679 865	219 876	(39 343)	(531 611)	(622 568)	(792 251)	(0)	-
Liquidity ratio	2,16	1,16	-	-	-	-	-	-

Financial assets by maturity date based on contractual non-discounted payments with future interest payments as at 31 December 2016 (in PLN '000)

LIABILITIES	On demand	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Amounts due to banks and financial institutions	9 802	84 989	116 705	290 861	495 086	781 445	1 360 906	1 627 831	**4 767 625**
Amounts due to bond issuance	-	-	-	7 275	7 354	254 629	257 525	-	**526 783**
Amounts due to customers	3 853 040	520 838	1 195 317	587 162	437 183	238 336	44 663	-	**6 876 539**
Subordinated debt	-	-	83 073	2 496	5 104	10 168	269 402	-	**370 243**
TOTAL EQUITY AND LIABILITIES	**3 862 842**	**605 827**	**1 395 095**	**887 794**	**944 727**	**1 284 578**	**1 932 496**	**1 627 831**	**12 541 190**

Financial assets by maturity date based on contractual non-discounted payments with future interest payments as at 31 December 2015 (in PLN '000)

LIABILITIES	On demand	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Amounts due to banks and financial institutions	5 374	87 111	119 222	45 791	536 494	849 129	1 755 971	1 374 850	**4 773 942**
Amounts due to bond issuance	-	-	-	3 530	3 569	7 080	247 080	-	**261 259**
Amounts due to customers	3 083 156	651 581	986 040	501 771	356 695	195 285	17 312	-	**5 791 840**
Subordinated debt	-	-	3 063	3 062	6 138	90 672	127 072	152 492	**382 499**
TOTAL EQUITY AND LIABILITIES	**3 088 530**	**738 692**	**1 108 325**	**554 154**	**902 896**	**1 142 166**	**2 147 435**	**1 527 342**	**11 209 540**

Receivables and liabilities arising from derivatives designated for hedge accounting, together with the reconciliation to their carrying values as at 31 December 2016

(PLN '000)	On demand	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Inflows	-	412	820	7 439	9 098	19 419	44 239	17 345	**98 772**
Outflows	-	-	-	(8 983)	(9 552)	(18 826)	(39 899)	(12 375)	**(89 635)**
NET	**-**	**412**	**820**	**(1 544)**	**(454)**	**593**	**4 340**	**4 970**	**9 137**
Discounted using the zero-coupon curve	-	411	818	(1 538)	(452)	575	4 072	4 137	**8 024**

Receivables and liabilities arising from derivatives designated for hedge accounting, together with the reconciliation to their carrying values as at 31 December 2015

(PLN '000)	On demand	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Inflows	-	-	-	5 138	2 855	5 742	9 776	-	**23 511**
Outflows	-	-	-	(12 544)	(6 483)	(6 442)	(9 305)	-	**(34 774)**
NET				**(7 406)**	**(3 628)**	**(700)**	**471**	**-**	**(11 263)**
Discounted using the zero-coupon curve	-	-	-	(7 381)	(3 578)	(657)	486	-	**(11 130)**

40. Operational risk management

a) Operational risk management strategy and processes

According to the definition adopted by the Bank, the operational risk is defined as the risk resulting from unadjusted or unreliable procedures, employees and internal systems as well as arising from external events, including low-probability events, yet resulting in significant losses.

According to the Bank's standards, the operational risk includes compliance risk and reputation risk, excluding strategic risk, i.e. the risk related to inappropriate strategic decisions affecting the activities of the Bank.

The operational risk management at Euro Bank S.A. involves the following:

- identification, measurement (or estimation), assessment, control, monitoring and reporting of operational risk in individual aspects of the Bank's operations,
- assessment of the effectiveness of existing controls,
- implementation of measures to mitigate this risk.

The operational risk management is based on the Operational Risk Management Strategy as approved by the Bank's Management Board and Supervisory Board. The Strategy contains the following, among others: the definition of Operational Risk, Operational Risk management principles, the Operational Risk profile and Operational Risk tolerance. The assumptions described in the Strategy are elaborated on in operational internal documents of the Bank, including the Operational Risk Management Procedure, the Operational Losses Declaration Procedure.

Internal documents present the organization and functioning of the operational risk management process at the Bank, and the tools supporting risk management at the Bank. These tools are updated and adapted to the Bank's operation on an ongoing basis, and their cross-analysis ensures an analytical assessment of the Bank's exposure to operational risk. The results of these analyzes are presented on a quarterly basis, at meetings of the Operational Risk Committee or the Internal Control Coordination Committee, as well as provided to the Management Board and the Supervisory Board's Audit Committee (quarterly) and to the Supervisory Board (annually).

b) The structure and organization of the unit responsible for operational risk

The operational risk at Euro Bank S.A. is managed by all operational units of the Bank in terms of relevant risk categories and areas.

The operational risk management is coordinated at the level of the Operational Risk Management and Internal Control Department.

The Department cooperates with specialized units of the Bank, as well as the Operational Risk Committee and the Internal Control Coordination Committee. The Committees were established by resolutions of the Management Board to monitor the operational risk management and analyze reports on the Bank's operational risk. Meetings of the Operational Risk Committee and the Internal Control Coordination Committee are held on a quarterly basis (in a given quarter a meeting must be held by at least one Committee), and the meetings cover aspects related to the management of operational risk in the Bank, including:

- current information on reported operating losses, their analyzes and steps taken to eliminate irregularities,
- analysis of key risk indicators,
- self-assessment of operational risks and controls,
- Permanent Control results,
- issues related to the Business Continuity Plan and Crisis Management.

The Committee also discusses and analyzes other aspects of operational risk identified in the current operations of the Bank.

c) Operational risk hedging and mitigation rules

The Bank performs a regular analysis of events and incidents of operational risk in order to reduce this risk. In addition, the Bank performs regular analysis of new business areas and new products that can affect the risk profile, as well as assesses the risks associated with the allocation of tasks to external companies. The Bank reduces individual areas of operational risk by ensuring proper procedures and internal controls, as well as through the use of appropriate insurance, and through the implementation of appropriate business continuity plans and contingency plans.

41. Equity management and capital adequacy

Under the applicable Banking Law 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 (CRR), banks are required to maintain own capital at a level appropriate to the level of risk incurred.
The capital management policy at the Bank assumes the maintenance of the required levels of capital ratios, respecting the applicable regulations in this regard, the supervisory recommendations, the existing capital buffers and capital measures under Pillar 2.
The measurement of capital adequacy utilizes the total capital ratio, indicating the relationship between the Bank's own funds and the total amount of risk exposure.

The minimum levels of capital ratios required under CRR are:

- 4.5% with regard to Tier 1 core capital ratio,
- 6% with regard to Tier 1 capital ratio,
- 8% with regard to the total capital ratio.

The Polish Financial Supervision Authority recommends Polish banks to maintain minimum capital ratios of 9% for the Tier 1 capital ratio and 12% for the total capital ratio.
In addition, in the letter dated 23 October 2015, the Polish Financial Supervision Authority imposed an obligation on the Bank to maintain capital requirements to cover the risk of foreign currency mortgage portfolio at the level of 0.44% in relation to Tier1 ratio, and at the level of 0.58% in relation to the capital adequacy ratio. In October 2016, PFSA updated the values of these ratios to the level of 0.36% of the total risk exposure in relation to Tier1 capital ratio and to 0.48% for total capital adequacy ratio. This recommendation is respected by the Bank as of its receipt.

From 1 January 2016, the Bank is obliged to maintain additional regulatory capital requirements for the conservation buffer. In 2016, in accordance with the "Act on macroprudential supervision over the financial system and crisis management" of 5 August, 2015, the Bank maintains an additional amount of Tier1 capital, amounting to 1.25% of the total risk exposure. In 2017, this ratio will remain unchanged. In 2018, this ratio will increase to 1.875%.

Considering the above, the minimum required level of capital ratios for the Bank as of 31 December 2016 is:

- 10.61% for the Tier1 capital ratio
- 13.73% for the total capital ratio

The capital requirement of the Bank has been set in accordance with CRR, taking into account the recommendations of the Polish Financial Supervision Authority in terms of application of national options. Bank sets capital requirements for credit risk, operational risk and currency risk, and the risk associated with credit valuation adjustment (CVA) using the standard approach. In the structure of capital requirements, the most important is the credit risk requirement.

Capital adequacy

(PLN '000)	31.12.2016	31.12.2015
Own funds	**1 469 544**	**1 405 008**
Tier1 capital	**1 268 667**	**1 149 380**
Share capital	563 096	563 096
Reserve capital	770 782	636 338
Revaluation capital - valuation of securities	(1 800)	9 747
Adjustment of funds by deferred tax asset	(16 405)	(14 619)
Adjustment of funds by intangible assets	(47 006)	(45 182)
Tier 2 Capital	**200 877**	**255 628**
Subordinated loan	200 877	255 628
Balance sheet risk-weighted assets	**8 407 365**	**7 895 376**
20% risk rate	3 728	2 708
35% risk rate	1 108 307	938 813
50% risk rate	57 515	60 623
75% risk rate	4 929 234	4 634 817
100% risk rate	1 839 093	1 833 611
150% risk rate	148 727	140 562
250% risk rate	320 761	284 242
Off-balance sheet risk-weighted liabilities	**118 746**	**174 090**
20% risk rate	18	-
50% risk rate	16 550	4 800
75% risk rate	102 178	169 290
100% risk rate		
Total risk weighted balance sheet assets and off-balance sheet liabilities	**8 526 111**	**8 069 466**
Risk exposure to credit risk	8 526 111	8 069 466
Risk exposure to operational risk	1 110 653	1 224 761
Risk exposure to currency risk*	-	30 040
CVA risk exposure	36 252	6 275
Total risk exposure amount	**9 673 016**	**9 330 542**
Tier 1	**13,12%**	**12,36%**
Total capital ratio	**15,19%**	**15,10%**

** at the end of 2015, the requirement for foreign exchange risk resulted from the revaluation to fair value of Visa Europe shares, expresses in EUR.*

The total capital adequacy ratio calculated as at 31 December 2016 was at the level of 15.19%, and the Tier 1 capital ratio at the level of 13.12%.
As at 31 December 2016, the Bank meets all statutory capital requirements defined by law and the guidelines of the Polish Financial Supervision Authority regarding the level of capital adequacy.

OTHER ADDITIONAL NOTES

42. Cash

The cash flow statement includes the following items:

(PLN '000)	**31.12.2016**	**31.12.2015**
Cash and deposits in the Central Bank	103 286	266 441
Current accounts*	17 204	12 360
TOTAL	**120 490**	**278 801**

**without the Company Social Benefits Fund*

43. Significant post-balance sheet events (not recognized in the financial statements)

After the balance sheet date, there have been changes in the composition of the Management Board and Supervisory Board.

On 13 December 2016, Mr Yves Arrouet resigned from the function of a Management Board member, effective as of 31 January 2017.
On 13 December, 2016, the Supervisory Board appointed Mr Mariusz Kaczmarek into the composition of the Management Board, effective on 2 January, 2017.
On 26 January 2017, Mr Krystian Kulczycki resigned from the function of a Management Board member.

Accordingly, the composition of the Management Board of the Bank on the date of signing of this document is as follows:

- Alexis Lacroix — First Vice-President of the Management Board
- Jarosław Nowacki — Vice-President of the Management Board
- Wojciech Humiński — Vice-President of the Management Board
- Marcin Ciszewski — Vice-President of the Management Board
- Radosław Księżopolski — Vice-President of the Management Board
- Mariusz Kaczmarek — Vice-President of the Management Board

On 24 January 2017, the Extraordinary General Meeting of Shareholders of Euro Bank S.A. appointed Mr Mihai Selegean to the Supervisory Board. Accordingly, the composition of the Supervisory Board of the Bank on the date of signing of this document is as follows:

- Giovanni Luca Soma — Chairman

- Didier Hauguel Vice-Chairman
- Dominika Bettman SB Member
- Henri Bonnet SB Member
- Eric Delarue SB Member
- Krzysztof Jajuga SB Member
- Małgorzata Lubelska SB Member
- Sebastian Mikosz SB Member
- Mihai Selegean SB Member

44. Information on related entities (in terms of capital or organizational aspects)

As at 31 December 2016, Societe Generale Consumer Finance SA with its registered office in Paris held over 99.97% of the Bank's shares. In 2016, the shares held by minority shareholders were bought back. As at 31 December 2015, Societe Generale Consumer Finance SA held 99.52% of the Bank's shares.

45. Transactions with related parties

The Bank purchases support services provided by related entities regarding management, control, lease of movables and support to the Bank's operations in line with the objectives implemented by the Bank.

The table below presents the stock of transactions with related parties as at 31 December 2016 and 31 December 2015.

(in PLN '000)	31.12.2016	31.12.2015
Societe Generale Consumer Finance (parent company)		
Liabilities	**129**	**185**
Liabilities for invoices	129	185
Siège SG - Comptabilité Fournisseurs (entity belonging to the Group)		
Liabilities	**10 723**	**9 619**
Liabilities for invoices	10 723	9 619
Societe Generale Paris (entity belonging to the group)		
Assets	**114 433**	**114 216**
Granted deposits	114 166	114 172
IBNR write-off	**(20)**	**(20)**
Invoice receivables	**287**	**64**
Liabilities and capitals	**4 435 166**	**4 475 189**
Loans received	4 435 166	4 464 059
Invoices	-	-
CF derivative hedge instruments – valuation	-	11 130
Derivatives (face value)	**1 880 000**	**1 140 000**
CF sold term derivative instruments	940 000	570 000
CF purchased term derivative instruments	940 000	570 000
Guarantees	**6 050**	**5 647**
Guarantees received	6 050	5 647

Societe Generale Warsaw (entity belonging to the group)		
Assets	**12 910**	**2 109**
Current accounts	12 821	2 106
Invoice receivables	89	3
Liabilities	10	-
Current accounts	10	-
SOGECAP (entity belonging to the group)		
Assets	**70**	**44**
Invoice receivables	70	44
Liabilities	**245 953**	**204 864**
Liabilities for invoices	2 285	9 716
Deposits	243 668	195 148
SOGESSUR (entity belonging to the group)		
Assets	**411**	**-**
Invoice receivables	411	-
Liabilities	11 312	9 567
Liabilities for invoices	-	455
Deposits	11 312	9 112
Societe Generale Equipment Leasing (entity belonging to the group)		
Assets	**46**	**37**
Invoice receivables	46	37
ALD AUTOMOTIVE Warsaw (entity belonging to the group)		
Assets	18	3
Invoice receivables	18	3
Liabilities	-	261
Liabilities for invoices	-	261

The following table presents revenues and expenses on transactions with related parties in the periods from 1 January 2016 to 31 December 2016 and from 1 January 2015 to 31 December 2015

(in PLN '000)	**2016**	**2015**
Societe Generale Consumer Finance (parent company)		
Costs	**(129)**	**(185)**
Management services costs	(129	(185)
Other costs	-	-
Siège SG - Comptabilité Fournisseurs (entity belonging to the Group)		
Costs	**(9 761)**	**(11 344)**
Management services costs	(9 761)	(11 344)
Societe Generale Paris (entity belonging to the group)		
Revenues	7 145	6 607
Interest income	7 145	6 607
Interest income on derivatives	-	-
Costs	(103 579)	(116 122)
Interest expenses	(100 514)	(107 423)
Interest expense on derivatives	(3 065	(8 699)

Invoice costs	-	-
Societe Generale Warsaw (entity belonging to the group)		
Revenues	91	313
Interest income	6	57
Invoice income	85	256
Costs	(300)	(133)
Interest expenses	(213)	(37)
Invoice costs	-	-
Commission expense	(87)	(96)
SOGECAP (entity belonging to the group)		
Revenues	126 895	125 084
Insurance income	126 350	124 578
Revenue from services	545	506
Costs	(4 520)	(4 788)
Interest expenses	(4 520)	(4 788)
Invoice costs	-	-
SOGESSUR (entity belonging to the group)		
Revenues	2 357	6 812
Insurance income	2 357	6 812
Costs	(208)	(271)
Interest expenses	(208)	(271)
ALD AUTOMOTIVE Warsaw (entity belonging to the group)		
Revenues	19	16
Revenue due to lease services fees	19	16
Costs	(9 792)	(8 551)
Costs of car maintenance services and lease fees,	(6 694)	(6 683)
Other costs	(3 098)	(1 863)
Societe Generale Equipment Leasing (entity belonging to the group)		
Revenues	38	30
Revenue due to lease services fees	38	30

As at 31 December 2016, the Bank's exposure to employees due to loans and advances amounted to PLN 94,185 thousand, and as at 31 December 2015 - PLN 98,145 thousand.
In 2016 and 2015, there were no significant non-standard transactions with related parties, the nature and conditions of which were not related to current operations. All transactions were concluded with market terms and conditions, without special or non-standard provisions.

46. Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable and willing parties in a directly concluded transaction, other than a forced sale transaction or liquidation, and is best reflected by the market price, if available.
The tables below present a summary of the carrying amounts and fair values of each financial asset and liability group, which has not been disclosed at fair value in the Bank's statement in line with IFRS.
Due to the fact that market values are not available for many financial instruments, the calculation of their estimate fair values involved appropriate valuation. To estimate the fair value of financial instruments of this

type, the Bank applied a model based on the estimate of the present value of future cash flows by discounting them using relevant interest rates.

All model-based calculations includes certain simplifying assumptions, as well as are characterized by sensitivity to a set of assumptions made.

Year 2016

(in PLN '000)	*Hierarchy level*	*Valuation method*	*Carrying amount as at 31 December 2016*	*Fair value as at 31 December 2016*
Amounts due from banks	2	discounted cash flows	132 793	140 457
Individuals	3	discounted cash flows	11 397 855	10 833 572
mortgage loans	*3*	discounted cash flows	6 397 053	5 941 841
credit cards	*3*	discounted cash flows	102 600	96 537
other credits and loans	*3*	discounted cash flows	4 898 202	4 795 194
TOTAL			11 530 648	10 974 029

(in PLN '000)	*Hierarchy level*	*Valuation method*	*Carrying amount as at 31 December 2016*	*Fair value as at 31 December 2016*
Amounts due to banks and financial institutions	2	discounted cash flows	4 379 814	4 405 090
Amounts due to bond issuance	2	discounted cash flows	490 350	491 316
Amounts due to customers	2	discounted cash flows	6 849 692	6 841 742
TOTAL			**11 719 856**	**11 738 148**

Year 2015

(in PLN '000)	*Hierarchy level*	*Valuation method*	*Carrying amount as at 31 December 2015*	*Fair value as at 31 December 2015*
Amounts due from banks	2	discounted cash flows	127 694	137 234
Individuals	3	discounted cash flows	10 540 466	10 206 374
mortgage loans	*3*	discounted cash flows	5 910 325	5 665 749
credit cards	*3*	discounted cash flows	111 606	104 035
other credits and loans	*3*	discounted cash flows	4 518 535	4 436 590
TOTAL			**10 668 160**	**10 343 608**

(in PLN '000)	*Hierarchy level*	*Valuation method*	*Carrying amount as at 31 December 2015*	*Fair value as at 31 December 2015*
Amounts due to banks and financial institutions	2	discounted cash flows	4 401 563	4 424 544
Amounts due to bond issuance	2	discounted cash flows	240 459	241 007
Amounts due to customers	2	discounted cash flows	5 769 968	5 767 558
TOTAL			**10 411 990**	**10 433 109**

The summary of main methods and assumptions used in the measurement of the fair value of financial instruments is presented below.

Amounts due from banks

The fair value of deposits is estimated based on discounted flows using the present curve of interest rates, at which the Bank is able to obtain funding on the market.

Amounts due from customers

Market values for loans are unavailable, thus the presented fair values are generally estimated using the valuation techniques assuming that at the time of loan granting the fair value is equal to the balance sheet value. The credit portfolio is presented in net value after taking into account impairment losses. The fair value is calculated as the discounted value of expected future payments of principal and interest, assuming that loan payments would be made on dates defined in loan agreements. For the purpose of discounting cash flows, the Bank used the effective interest rate for current production. The estimated fair value of credits and loans reflects the change in the level of credit risk (margins) from the time of loan granting and changes in interest rates. For the purpose of estimating the fair value of the CHF mortgage loans portfolio, due to the disappearance of an active market, the Bank uses the current average margin observed in the market for mortgage loans in EUR adjusted for the quotation of swap instruments for CHF/EUR.

Liabilities to banks

The fair value is estimated based on discounted flows using the current curve of interest rates at which the Bank is able to acquire funding in the market, taking into account the currency of the deposit.

Amounts due to customers

The fair value of term-deposits is estimated based on cash flows discounted by the current curve of interest rates at which the Bank is able to obtain funding in the market. In case of callable deposits without a defined maturity date, it is assumed that the fair value does not significantly differ from the balance sheet value. The significance of long-term cooperation with depositaries is not taken into account in the fair value estimation process.

The tables below analyze financial instruments measured at fair value divided into three levels, where:

- Level 1 – where the fair value is based on stock prices (not adjusted) offered for the same assets or liabilities in active markets,
- Level 2 – where the fair value is determined based on the values in the market, however, not direct market quotations (e.g. by direct or indirect reference to similar instruments in the market),
- Level 3 – where the fair value is determined based on various valuation techniques which are not based on any observable market data.

Year 2016

In 2016, there were no transfers between level 1 and 2.

(in PLN '000)	**Level 1 31.12.2016**	**Level 2 31.12.2016**	**Level 3 31.12.2016**	**TOTAL 31.12.2016**
Available-for-sale financial assets	***1 538 051***	***210 880***	***7 019****	***1 755 950***
Securities	1 538 051	210 880	7 019	1 755 950
TOTAL	**1 538 051**	**210 880**	**7 019**	**1 755 950**

** As a result of the sale of shares in Visa Europe to Visa Inc., in 2016 the Bank derecognized the fair value of Visa Europe shares from other comprehensive income, recorded in December 2015 in the amount of MPLN 30. The value of shares in Visa Inc. recorded in 2016 takes into account the amount of MPLN 6.2 recognized in the income statement and MPLN 0.8 recognized in other comprehensive income.*

Year 2015

In 2015, there were no transfers between level 1 and 2.

(in PLN '000)	**Level 1 31.12.2015**	**Level 2 31.12.2015**	**Level 3 31.12.2015**	**TOTAL 31.12.2015**
Available-for-sale financial assets	***15***	***1 004 703***	***30 077***	***1 034 780***
Securities	15	1 004 703	30 077	1 034 780
TOTAL	**15**	**1 004 703**	**30 077**	**1 034 780**

Distribution of the fair value of financial assets and liabilities into levels (for financial assets and liabilities that are not measured at fair value for purposes of presentation in the statement of financial position).

Year 2016

(in PLN '000)	**Level 1 31.12.2016**	**Level 2 31.12.2016**	**Level 3 31.12.2016**	**TOTAL 31.12.2016**
Financial assets				-
Amounts due from banks	-	140 457	-	140 457
Individuals	-	-	10 833 572	**10 833 572**
TOTAL		140 457	10 833 572	**10 974 029**
Financial liabilities				
Amounts due to banks and financial institutions	-	4 405 090	-	4 405 090
Amounts due to bond issuance	-	491 316	-	491 316
Amounts due to customers	-	6 841 742	-	6 841 742
TOTAL	**-**	**11 738 148**	**-**	**11 738 148**

Year 2015

(in PLN '000)	**Level 1 31.12.2015**	**Level 2 31.12.2015**	**Level 3 31.12.2015**	**TOTAL 31.12.2015**
Financial assets				
Amounts due from banks	-	137 234	-	137 234
Individuals	-	-	10 206 374	10 206 374
TOTAL		137 234	10 206 374	**10 343 608**
Financial liabilities				
Amounts due to banks and financial institutions	-	4 424 544	-	4 424 544
Amounts due to bond issuance	-	241 007	-	241 007
Amounts due to customers	-	5 767 558	-	5 767 558
TOTAL	**-**	**10 433 109**	**-**	**10 433 109**

47. Remuneration paid to members of the Management Board and Supervisory Board

Remuneration of the Management Board

(in PLN '000)	2016	2015	2014
Remuneration in the financial period	**8 752**	**9 049**	**8 782**
Short-term benefits (remuneration and payroll charges)	7 907	8 247	7 745
Provision for unused holidays	352	353	459
Other benefits	493	449	578

Remuneration of the Supervisory Board

(in PLN '000)	2016	2015
Remuneration in the financial period	**490**	**189**
Short-term benefits	490	189
Other benefits	-	-

The Remuneration Policy developed by the Management Board of the Bank and approved by the Supervisory Board on 25 April 2012 is compliant with the provisions set forth in the CRD III directive and its transposition to the Polish law in Resolution no. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011.

The aims of the Remuneration Policy are as follows:

- to support proper and efficient risk management and reduce the eagerness to take excessive risk going beyond the strategy of the Bank,
- to support the implementation of the Bank's strategy and to reduce the occurrence of conflicts of interest,
- to bind personal aims of employees with long-term interest of the Bank,
- to bind variable remuneration components with long-term results of the Bank.

The variable remuneration component is calculated in accordance with the principles of management by objectives, the establishment and implementation of individual and common goals in the area of the employee's responsibility, and the achievement of individual performance of tasks related to the implementation of the Bank's strategy.

In 2016, the variable remuneration component has been recognized by the Bank in remuneration cost with payroll charges in the amount of kPLN 3,055.

In 2015, the variable remuneration component has been recognized by the Bank in remuneration cost with payroll charges in the amount of kPLN 2,893.

48. Contingent liabilities and collaterals

a) Granted guarantees and endorsements

The Bank did not grant any guarantees or endorsements.

b) Issuer guarantees and endorsements

The Bank did not perform the role an underwriter of the issuance of securities.

c) Subscription options or sale of ordinary shares

The Bank did not enter into any such contracts.

d) Dividends

The net profit disclosed by the Bank for 2015 was used to increase equity (supplementary capital).
At the date of preparation of these financial statements, the Bank has not made any decisions regarding the allocation of profit for the year 2016.

e) Information about assets used as collateral of the Bank's own liabilities and third-party liabilities

The following assets were used as collateral of the Bank's own liabilities as at 31 December 2016:

- securities used as collateral of the guarantee fund maintained by the Bank Guarantee Fund with a carrying amount of kPLN 34,366,
- deposits used as collateral of rental agreements in the amount of kPLN 169.

Pursuant to Resolution 28/2015 of the Board of the Bank Guarantee Fund of 25 November 2015 on determination of the amount of the guaranteed deposit protection fund for 2016, the Bank maintained a blockade on securities in the amount of 0.55% of total funds being the basis for calculating the reserve requirement. The value of funds blocked in H2 2016 amounted to kPLN 35,189.
On 24 October, 2016, the guarantee condition was fulfilled for Bank Spółdzielczy in Nadarzyn; therefore, the Bank made payment to the Bank Guarantee Fund in the amount of kPLN 833, and then reduced the guaranteed deposit protection fund by the value corresponding to the above payment. The value of securities subject to the blockade as at 31 December 2015 amounted to kPLN 34,354.
The following assets were used as collateral of the Bank's own liabilities as at 31 December 2015:

- securities used as collateral of the guarantee fund maintained by the Bank Guarantee Fund with a carrying amount of kPLN 20,746,
- deposits used as collateral of rental agreements in the amount of kPLN 169.

f) Transactions with buy-back clauses not disclosed in the balance sheet

As at 31 December 2016 and 31 December 2015, the Bank was not a party to transactions with buy-back clauses that would not be disclosed in the balance sheet.

g) Granted financial liabilities

As at 31 December 2016, the Bank had off-balance financial liabilities totaling kPLN 331,094, including liabilities due to extended mortgage loans in the amount of kPLN 119,987, due to extended credit card loans in the amount kPLN 113,442 and due to granted overdrafts in the amount of kPLN 97,665.

As at 31 December 2015, the Bank had off-balance financial liabilities totaling kPLN 501,367, including liabilities due to extended mortgage loans in the amount of kPLN 295,208, due to extended credit card loans in the amount kPLN 122,919 and due to granted overdrafts in the amount of kPLN 83,240.

h) Face value of underlying instruments covered by derivative contracts

In its operations the Bank uses derivative financial instruments to manage risks associated with its activities. Forwards constitute the majority of derivatives that are used by the Bank for the above purpose. As at 31 December 2016, the Bank had an IRS in the nominal value of MPLN 940, and a forward transaction (NDF) in nominal value of MUSD 1.05 (MPLN 4.4). As at 31 December 2015, in its derivative portfolio the Bank held an IRS in the nominal value of MPLN 570.

The value of the balance-sheet valuation of derivatives is presented in the table below:

	31.12.2016		31.12.2015	
Type of contract	**Assets**	**Liabilities**	**Assets**	**Liabilities**
IRS	8 023	-	-	11 130
Forward	29	-	-	-
Total	**8 052**	**-**	**-**	**11 130**

i) Received liabilities

As at 31 December 2016, the Bank had off-balance sheet liabilities in the amount of kPLN 1,664,000 and kCHF 11,000 (kPLN 45,290) due to granted and unused lines of funding, and kUSD 1,448 (kPLN 6,050) due to guarantees for Mastercard settlements.

As at 31 December 2015, the Bank had off-balance sheet liabilities in the amount of kPLN 3,002,000 and kCHF 30,000 (kPLN 118,182) due to granted and unused lines of funding, and kUSD 1,448 (kPLN 5,647) due to guarantees for Mastercard settlements.

49. Hedge accounting principles adopted by the Bank

In the financial statements for the year 2016 the Bank applied:

- **cash flow hedge accounting** in the context of protection against the volatility of cash flows generated by variable interest savings account, resulting from changes in interest rates (*macro cash flow hedge),*

- **fair value hedge accounting** in order to hedge against changes in the fair value of fixed-rate debt instruments classified to the portfolio of assets available for sale against risks arising from changes in interest rates (*micro fair value hedge*),

Summary of nominal values of derivative hedging instruments based on contractual maturity dates as at 31 December 2016 (in PLN '000)

	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Fair value hedge accounting								
interest rate swaps (IRS)	–	-	–		-	500 000	90 000	**590 000**
Cash flow hedge accounting								
interest rate swaps (IRS)					200 000	150 000	-	**350 000**
TOTAL	**0**	**0**	**0**	**0**	**200 000**	**650 000**	**90 000**	**940 000**

Summary of nominal values of derivative hedging instruments based on contractual maturity dates as at 31 December 2015 (in PLN '000)

	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	Total
Fair value hedge accounting								
interest rate swaps (IRS)	–	–	–	–	0	-		**-**
Cash flow hedge accounting								
interest rate swaps (IRS)	–	–	–	–	–	350 000	–	**350 000**
TOTAL	**0**	**0**	**0**	**0**	**0**	**350 000**	**0**	**350 000**

Fair values of hedging derivatives as at 31 December 2016 (in PLN '000)

in PLN '000	ASSETS	LIABILITIES
Fair value hedge accounting		
interest rate swaps (IRS)	6 990	–
Cash flow hedge accounting		
interest rate swaps (IRS)	1 033	–
Total	**8 023**	**–**

Fair values of hedging derivatives as at 31 December 2015 (in PLN '000)

in PLN '000	ASSETS	LIABILITIES
Fair value hedge accounting		
interest rate swaps (IRS)	–	–
Cash flow hedge accounting		
interest rate swaps (IRS)	–	(11 130)
Total	–	**(11 130)**

Fair value hedges

The hedged risk is the change in fair value of financial assets due to changes in interest rates. The subject of the hedge is the fair value of a fixed-rate debt instrument included in the portfolio of assets available for sale. For the purposes of the strategy, the isolation of the part of the change in the fair value for the hedged risk is carried out based on valuation models based on assumptions similar to the interest rate derivative pricing models. The valuation curves used in the model are constructed on the basis of market rates corresponding to the repricing tenors of variable interest rate hedging instruments offset by a specified fixed spread set at the time of the hedge. The hedging instrument is the IRS contract that converts the fixed interest rate to a variable rate. This results in that the changes in the fair value of the hedging instrument show a tendency reverse than the changes in the fair value of the hedged item. Therefore, by establishing a hedging relationship, the profit and loss account obtains a netting effect of changes in fair value of the hedging instrument and the hedged item arising from the hedged risk. The mismatch element resulting from the use of different valuation curves affects the degree of effectiveness of the hedging strategy, which manifests itself at the level of the income statement. Since only one type of risk (interest rate risk) is hedged, changes in the fair value of the hedged item classified to the portfolio of assets available for sale, arising from the remaining unhedged risks, are recognized in the revaluation reserve. Interest on derivative hedging instruments are recognized in net interest income. Interest income on financial assets available for sale are also recognized in net interest income. The valuation of hedging and hedged transactions is presented in the profit and loss account in the hedge accounting result item.
On a monthly basis, the Bank verifies the effectiveness of hedges through the use of prospective and retrospective effectiveness tests. In 2016, all hedge accounting tests were effective.

The table below presents detailed information about the hedging relationship in fair value hedges:

Hedge type	Fair value hedge of a fixed-rate debt instrument belonging to the portfolio of assets available for sale by way of IRS transactions
Hedging relationship	The Bank hedges a portion of the interest rate risk arising from changes

	in the fair value of the hedged item related to the volatility of market swap rates by way of IRS transactions.
Hedged item	The hedged item are fixed-coupon debt securities classified as available for sale (AFS), denominated in PLN
Hedging instruments	The hedging item are IRS derivatives in PLN, in which the Bank receives variable flows and pays fixed flows.
Recognition of the profit/loss on hedged and hedging transactions in the financial statements	The result on the valuation change to fair value of hedged items in terms of the hedged risk is attributed to the fair value hedge result. The remaining portion of the change in valuation to fair value (resulting from the spread between the swap curve and the bond curve) is posted in accordance with the general principles applicable to AFS instruments (i.e. in revaluation reserve). Interest on debt securities are recognized in net interest income. The change in valuation to fair value of derivatives in fair value hedge accounting is presented in the fair value hedge result. Interest on derivatives in fair value hedge accounting are recognized in net interest income.

The tables below present the periods in which the expected cash flows from derivative instruments designated to fair value hedge accounting with regard to their impact on the profit and loss account.

Year 2016

(PLN '000)	**INTEREST INCOME**	**INTEREST EXPENSE**	**NET**
Up to 1 year	14 152	(23 022)	(8 870)
1 to 2 years	12 849	(12 350)	499
2 to 3 years	17 937	(12 338)	5 599
3 to 4 years	16 403	(12 370)	4 033
over 5 years	24 172	(17 297)	6 875

	CASH FLOWS		
(PLN '000)	**INFLOWS**	**OUTFLOWS**	**NET**
Up to 1 year	11 374	(12 093)	(719)
1 to 2 years	12 465	(12 364)	101
2 to 3 years	14 106	(12 343)	1 763
3 to 4 years	15 928	(12 411)	3 517
over 5 years	28 151	(24 678)	3 473

Amounts recognized in profit or loss due to fair value hedge (in PLN '000)

	31.12.2016	**31.12.2015**
Profit/loss due to fluctuations in the fair value of the hedging instrument	11 706	-
Profit/loss due to fluctuations in the fair value of the hedged item related to the hedged risk	(11 911)	-
Fair value hedge result	**(205)**	**-**
Interest income on hedging derivatives	**(761)**	**-**

Macro cash flow hedges

The hedged risk is the change in cash flows on financial liabilities due to changes in interest rates. The hedged item is the portfolio of liabilities arising from savings accounts characterized by variable interest rates, and thus exposed to the risk of changes in future cash flows resulting from changes in the benchmark market interest rate (WIBOR). For the purposes of the strategy in terms of the calculation of changes in the fair value of future cash flows on the portfolio being hedged, the Bank uses the "hypothetical derivative" method (i.e. a method which involves the possibility to reflect the hedged item and the characteristics of the hedged risk in the form of a derivative instrument). The valuation principles are the same as in case of the valuation of interest rate derivatives. The hedging instrument are IRS transactions that convert the fixed interest rate to a variable rate. Given that the hedging item being the subject of particular strategies affects the income statement results continuously (i.e. through valuation as amortized cost), the interest income on derivatives hedging the portfolio of financial liabilities is presented in net interest income.
As at 31 December 2017, the revaluation reserve included the amount of kPLN 988 (including deferred tax) relating to the effective portion of the hedging relationship in cash flow hedge accounting (kPLN - 2,445 as at 31 December 2015). The ineffective portion of the hedging relationship resulting from the mismatch in offsetting changes in the fair value of the hedging instrument and the hedged item is recognized in profit and loss, and in 2016 amounted to kPLN 300 (no such item in 2015).

On a monthly basis, the Bank verifies the effectiveness of the hedge through the use of prospective and retrospective effectiveness tests and the high-probability cash flows test. The high-probability test is additionally back-tested. The retrospective effectiveness test is carried out using the "hypothetical derivative" method. In 2016, all hedge accounting tests were effective.

The table below presents detailed information about the hedging relationship in macro cash flow hedges:

Hedge type	Hedge against fluctuations in cash flows of the portfolio of saving accounts in PLN using Interest Rate Swaps
Hedging relationship	The Bank hedges against part of the interest rate risk resulting from fluctuations in cash flows on saving accounts with floating interest rates in PLN using Interest Rate Swaps replacing floating payments with fixed payments.
Hedged item	Cash flows due to the portfolio of saving accounts with floating interest rate in PLN.
Hedging instruments	Interest Rate Swap transactions where the Bank pays fixed cash flows and receives floating ones.
Recognition of the profit/loss on hedged and hedging transactions in the financial statements	The portion of the revaluation to the fair value of hedging instruments corresponding to the effective hedge is recognized in revaluation reserve. The ineffective portion of the revaluation to the fair value of hedging instruments is recognized in profit/loss on financial transactions. Interest on hedging instruments and hedged item is recognized in net interest income.

The table below present the amounts due to macro cash flow hedges which in 2016 and 2015 the Bank recognized in the statement of comprehensive income and revaluation reserve.

(PLN '000)	**31.12.2016**	**31.12.2015**
Revaluation reserve as at the end of the period (revaluation to the fair value of hedging derivatives due to hedged risk, corresponding to the effective hedge)	800	(1 981)
Ineffective portion of the revaluation to the fair value of hedging derivative due to hedged risk, recognized in the profit/loss on financial transactions	-	-
Net interest on hedging derivatives in macro cash flow hedges recognized in the interest margin	(2 371)	(8 699)
Period when the hedged cash flows are expected, including interest (in PLN '000): A. as at 31 December 2016 - up to 1 year – 6,298 - 1 to 3 years – 9,360 - over 3 years – 0 B. as at 31 December 2015 - up to 1 year – 6,631 - 1 to 3 years – 11,908 - over 3 years – 2,780	3 years	4 years

The tables below present the periods in which the expected cash flows from derivative instruments designated to cash flow hedge accounting with regard to their impact on the profit and loss account.

Year 2016

(PLN '000)	**INTEREST INCOME**	**INTEREST EXPENSE**	**NET**
Up to 1 year	6 468	(6 460)	8
1 to 2 years	6 438	(5 907)	531
2 to 3 years	2 892	(2 406)	486
3 to 4 years	-	-	-
over 5 years	-	-	-

	CASH FLOWS		
(PLN '000)	**INFLOWS**	**OUTFLOWS**	**NET**
Up to 1 year	6 396	(6 442)	(46)
1 to 2 years	6 954	(6 463)	491
2 to 3 years	3 398	(2 843)	555
3 to 4 years	-	-	-
over 5 years	-	-	-

Year 2015

(PLN '000)	**INTEREST INCOME**	**INTEREST EXPENSE**	**NET**
Up to 1 year	6 867	(9 586)	(2 719)
1 to 2 years	5 867	(6 460)	(593)
2 to 3 years	6 043	(5 907)	136
3 to 4 years	2 763	(2 406)	357
over 5 years	-	-	-

	CASH FLOWS		
(PLN '000)	**INFLOWS**	**OUTFLOWS**	**NET**
Up to 1 year	7 993	(19 027)	(11 034)
1 to 2 years	5 742	(6 442)	(700)
2 to 3 years	6 533	(6 463)	70
3 to 4 years	3 243	(2 843)	400
over 5 years	-	-	-

The table below presents changes in revaluation reserve due to macro cash flow hedges in 2016 and 2015.

Change in the revaluation reserve in period *(in PLN '000)*	**2016**	**2015**
Opening balance	(1 981)	(7 754)
Movements of active hedges	1 062	(1 572)
- change in clean value	3 433	7 128
- interest	(2 371)	(8 699)
Amortization of inactive hedges	-	-
Amount of deferred revaluation to the fair value of hedging derivatives due to hedged risk, moved from the revaluation reserve to the interest margin (Net interest on hedging derivative in macro cash flow hedges)	2 371	8 699
Deferred tax	(652)	(1 354)
Closing balance	**800**	**(1 981)**
Total change in period	**2 781**	**5 773**

50. Information about revenue and expenses related to sold financial assets whose fair value could not be reliably estimated

No financial assets whose fair value could not be reliably estimated were sold during the period from 1 January to 31 December 2016 and from 31 January to 31 December 2015.

51. Remuneration of the entity authorized to audit financial statements, payable for the financial year

(PLN '000)	**2015**	**2015**
Remuneration for mandatory audit of the annual financial statements	352	352
Total	**352**	**352**

52. Income on dividends

In the period from 1 January to 31 December 2016, the Bank earned income from dividends on Visa Inc shares in the amount of kPLN 39. The Bank did not receive any dividend income in the period from 1 January to 31 December 2015.

53. Additional disclosures

The Bank's revenue, referred to in Article 111a of the Banking Act, in 2016 amounted to MPLN 820. In 2015, the Bank's revenue amounted to MPLN 732.

(PLN '000)	*2016*	*2015*
Net interest income	639 600	575 703
Net commission income	61 942	64 041
Result on financial operations	48 297	-
Foreign exchange result	3 147	2 262
Gain/loss on adjustments of the fair value in hedge accounting	(11 911)	-
Other operating income	79 172	90 249
Bank's revenue	**820 247**	**732 255**

The return on assets, defined as the ratio of net profit and total assets, in 2016 was at 1.0% The return on assets in 2015 was at 1.1%.

54. Capital expenditure

During the period from 1 January to 31 December 2016 the Bank incurred kPLN 30,467 in capital expenditure, of which kPLN 16,076 for fixed assets and kPLN 14,391 for intangible assets. Capital expenditure committed by the Bank for 2017 amount to kPLN 7,495 and apply particularly to the IT area.
During the period from 1 January to 31 December 2015 the Bank incurred PLN 49,294 thousand in capital expenditure, of which PLN 28,130 thousand for fixed assets and PLN 21,164 thousand for intangible assets.

55. Revenue and expenses related to operations discontinued during the financial year or planned to be discontinued next year

The Bank did not discontinue any operations during the period from 1 January to 31 December 2016 and from 1 January to 31 December 2015, and does not plan to do so after the end of the reporting period.

56. Average number of employees in the financial period

The average employment in 2016 amounted to 2 973 employees vs. 3 021 employees in 2015.

The number of employees as of the end of 2016 was 2 943 employees and 2 918.4 FTEs vs. 3 018 employees and 2 998.6 FTEs in 2015.

57. Provisions for future liabilities to employees

Provisions for future liabilities to employees, by type:

(PLN '000)	**31.12.2016**	**31.12.2015**
- for retirement severance	274	249
- for unused holidays (short-term benefits)	7 088	7 385

The Bank recognizes provisions for future retirement liabilities to its employees determined based on an actuarial method based on key indicators reflecting the structure of staff.

The Bank has not introduced any equity-based programs. In accordance with the provisions of CRD III and Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles of functioning of the risk management system and internal control system and detailed conditions of internal capital assessment by banks and of reviewing the process of internal capital assessment and maintenance and the principles of determining the policy on variable components of remuneration of persons holding managerial positions at a bank, the Bank introduced the rules for granting and payment of variable remuneration for persons holding managerial positions at the Bank.

A portion of the variable component of remuneration is awarded in the form of a non-cash instrument whose value depends on the adjusted change in net assets of the Bank.