EURO BANK SA

Financial Statements
for the year ended on 31 December 2017

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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 2017, 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:

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The financial statements for the year ended on 31 December 2017 were approved by the Management Board on 13 March 2018 by way of Resolution of the Management Board no. ZRZ/87/2018.

These financial statements include 103 numbered pages.

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 Wojciech Humiński	Responsible for keeping accounting books Małgorzata Putek

Wrocław, 13 March 2018

STATEMENT OF COMPREHENSIVE INCOME

for the year ended on 31 December 2017

(PLN '000)	Note	2017	2016*
Going concern business			
Interest income	3	866 295	842 802
Interest expense	4	(204 125)	(202 499)
Net interest income		**662 170**	**640 303**
Commission income	5	92 394	100 073
Fee and commission expense	6	(41 809)	(45 006)
Net commission income		**50 585**	**55 067**
Net income on financial operations	7	(1 528)	48 297
Foreign exchange result	8	4 088	3 147
Fair value adjustment result in hedge accounting		**1 886**	**(11 911)**
Net banking income		**717 201**	**734 903**
Other operating income	9	47 394	79 172
Other operating expense	10	(18 967)	(19 661)
Operating expenditure	11	(448 880)	(452 291)
Depreciation	12	(36 254)	(35 173)
Result on impairment losses	13	(121 904)	(126 722)
Gross result on operations		**138 590**	**180 228**
Gross profit (loss)		**138 590**	**180 228**
Income tax	14	**(35 753)**	**(38 246)**
Net profit (loss)		**102 837**	**141 982**
Other comprehensive income – items that may be reclassified to the profit and loss account		**15 754**	**(23 110)**
Net profit (loss) on revaluation of financial assets available for sale		6 592	(23 766)
- including deferred tax		(1 546)	5 576
Net profit (loss) on valuation of derivatives hedging cash flows and fair value (resulting from contracts not settled at the reporting date):	32	9 162	656
- including deferred tax		(2 149)	(154)
Items that cannot be reclassified to the profit and loss account		**-**	**-**
Total other comprehensive income		**15 754**	**(23 110)**
Total net comprehensive income		**118 591**	**118 872**

**comparable data. Information on the scope of transformations as at 31 December 2016 is included in note 2.4.*

Discontinued operations

In years 2017 and 2016, Euro Bank S.A. did not carry out discontinued operations.

Notes presented on pages 10-103 constitute an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

(PLN '000)	**Note**	**31.12.2017**	**31.12.2016**
ASSETS			
Cash and balances with Central Bank	15	163 237	103 286
Amounts due from banks	16	99 025	132 793
Amounts due from customers	17	11 731 301	11 397 855
Available-for-sale financial assets	18	1 494 028	1 755 950
Fixed assets for sale		-	698
Derivative instruments in hedge accounting	23	5 538	8 023
Intangible assets	19	52 807	47 006
Tangible fixed assets	20	62 234	66 527
Current income tax receivables		1 677	-
Deferred tax assets	21	151 484	158 774
Other assets	22	36 490	37 866
TOTAL ASSETS		**13 797 821**	**13 708 778**
LIABILITIES			
Amounts due to banks and financial institutions	24	4 130 629	4 379 814
Amounts due to customers	25	6 816 778	6 849 692
Amounts due to debt securities	26	740 659	490 350
Provisions	27	2 164	3 998
Derivative instruments in hedge accounting		-	-
Other liabilities	28	190 698	176 509
Current income tax liabilities		-	2 087
Subordinated debt	29	351 565	331 191
Total liabilities		**12 232 493**	**12 233 641**
Share capital (funds)	30	563 096	563 096
Supplementary capital (funds)	31	884 364	770 782
Revaluation reserve	32	15 031	(723)
Net profit (loss)		102 837	141 982
Total equity		1 565 328	**1 475 137**
TOTAL LIABILITIES AND EQUITY		**13 797 821**	**13 708 778**

Notes presented on pages 10-103 constitute an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended on 31 December 2017

(PLN '000)	Note	Share capital (funds)	Supplementary capital (fund)	Revaluation reserve	Net profit (loss)	Total equity
01.01.2017		**563 096**	**770 782**	**(723)**	**141 982**	**1 475 137**
Allocation of profit for previous years	31	-	141 982	-	(141 982)	-
Net profit (loss) for period		-		-	102 837	102 837
Payment of dividends			(28 400)			(28 400)
Other net comprehensive income for period		-	-	15 754	-	15 754
Total income for period		**-**	**-**	**15 031**	**102 837**	**117 868**
31.12.2017		**563 096**	**884 364**	**15 031**	**102 837**	**1 565 328**

The revaluation reserve in the amount of kPLN 15,031 includes the valuation of debt securities in the amount of kPLN 4,602, the valuation of equity instruments in the amount of kPLN 2,592, the valuation of cash flow hedges in the amount of kPLN 232 and the valuation of fair value hedges in the amount of kPLN 7,606.

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**

The revaluation reserve in the amount of (kPLN 723) includes the valuation of debt securities in the amount of (kPLN 87), the valuation of equity instruments in the amount of kPLN 688, the valuation of cash flow hedges in the amount of kPLN 800 and the valuation of fair value hedges in the amount of (kPLN 2,124).

Notes presented on pages 10-103 constitute an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended on 31 December 2017

(PLN '000)	Note	2017	2016
NET OPERATING CASH FLOWS			
Gross profit (loss)		**138 590**	**180 228**
Total adjustments:		**(258 071)**	**(542 104)**
Depreciation	12	36 253	35 173
Interest		10 678	12 180
(Profit) loss on investment activities		692	966
Change in the balance of available-for-sale financial assets		270 061	(750 497)
Change in the balance of available-for-sale fixed assets		-	-
Change in amounts due from banks		42 997	(255)
Change in amounts due from customers		(333 446)	(857 389)
Change in amounts due to banks		(249 185)	(21 750)
Change in amounts due to customers		(32 914)	1 079 724
Paid income tax		(35 135)	(11 434)
Change in other liabilities		13 778	8 976
Change in provisions		(1 835)	(8 051)
Change in other assets		14 192	(33 125)
Other adjustments		5 793	3 378
Net operating cash flows		**(119 481)**	**(361 876)**
NET CASH FLOWS ON INVESTMENT ACTIVITIES			
Income on investment activities		**-**	**-**
Expenses on investment activity		**(41 588)**	**(34 337)**
Expense on purchase of tangible fixed assets and intangible assets		(41 588)	(34 337)
NET CASH FLOWS ON INVESTMENT ACTIVITIES		**(41 588)**	**(34 337)**
NET FINANCIAL CASH FLOWS			
Income on financial activity		**270 000**	**250 000**
Inflows from the issue of debt securities	26	250 000	250 000
Change in the balance of subordinated debt		20 000	-
Expenses on financial activity		**(39 760)**	**(12 098)**
Other financial expenses (incl. interest paid on the subordinated loan)		(39 760)	(12 098)
NET FINANCIAL CASH FLOWS		**230 240**	**237 902**
NET CASH FLOWS, TOTAL		**69 171**	**(158 311)**
CHANGE IN THE BALANCE OF CASH IN STATEMENT OF FINANCIAL POSITION		**69 171**	**(158 311)**
CASH AT THE BEGINNING OF THE PERIOD		**120 490**	**278 801**
CASH AT THE END OF THE PERIOD	42	**189 661**	**120 490**

Notes presented on pages 10-103 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 2017 and contain comparative data for the year ended on 31 December 2016. 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 products of insurance companies. The Bank operates through a nationwide network of bank branches. 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 does not benefit from public financial aid, in particular under the Act of 12 February 2009 on the provision of State Treasury support to financial institutions.

The scope of data presented in the 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 Financial Services 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 2017

- Alexis Lacroix — President of the Management Board
- Mariusz Kaczmarek — 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

In the course of the year ended on 31 December 2017, the composition of the Management Board changed as follows:

- On 13 December 2016, Mr Yves Arrouet resigned from the function of a Management Board member, effective as of 31 January 2017.

- On 26 January 2017, Mr Krystian Kulczycki resigned from the function of a Management Board member, effective as of 26 January 2017.
- On 27 June 2017, Mr Jarosław Nowacki resigned from the function of a Management Board member, effective as of 27 June 2017.
- On 21 July 2017, the Supervisory Board, having obtained the approval of the Polish Financial Supervision Authority, appointed Mr Alexis Lacroix the President of the Management Board.

Composition of the Supervisory Board as at 31 December 2017

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

In the course of the year ended on 31 December 2017, the composition of the Bank's Supervisory Board changed as follows:

- On 24 January 2017, the Extraordinary General Meeting of Shareholders of Euro Bank S.A. appointed Mr Mihai Selegean to the Supervisory Board.
- On 4 October 2017, the Supervisory Board appointed Mr Henri Bonnet its Vice-Chairman.
- On 6 December 2017, Mr Didier Hauguel resigned from the function of a Supervisory Board member, effective as of 29 December 2017.

Approvals of the financial statements

The Financial Statements for the year ended on 31 December 2016 was approved by the General Meeting of Shareholders on 21 June 2017.

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 2017 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS) as at 31 December 2017.

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 following changes to existing standards and interpretation issued by the International Accounting Standards Board (IASB) and approved for use in the EU enter into force for the first time in the financial statements 2017:

- Amendments to IFRS 7 '"Statement of Cash Flows" – Disclosure initiative – approved in the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 12 "Income Tax" – Recognition of Deferred Tax Assets for Unrealised Losses – approved by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),

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" – approved by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective Date of IFRS 15" – approved by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 "Leases" – approved by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 4 "Insurance Contracts" – Application of IFRS 9 "Financial Instruments" and IFRS 4 "Insurance Instruments" – approved by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or at the first adoption of IFRS 9 "Financial Instruments"),

- Amendments to IFRS 15 "Revenue from Contracts with Customers" – Clarifications to IFRS 15 "Revenue from Contracts with Customers" – approved by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),

IFRS in the form approved by the EU does not differ significantly from the regulations issued by the International Accounting Standards Board (IASB), with the exception of the following new standards, amendments to standards and new interpretations, which as at 31 December 2017 have not yet been adopted for use in the EU (the following effective dates refer to the full version):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to start the process of approving this temporary standard for use within the EU until the final version of IFRS 14 is issued,
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, as amended (the effective date of the amendments has been postponed until the completion of research on the equity method),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards "Amendments to IFRS (2014-2016 cycle)" – amendments made as part of the annual amendment procedure to IFRS (IFRS 1, IFRS 12 and IAS 28) mainly focused on solving incompatibilities and clarifying vocabulary (amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, and amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards "Amendments to IFRS (2015-2017 cycle)" – amendments made as part of the annual improvement procedure to IFRS (IFRS 3, IFRS 11 and IAS 12 and IAS 23) mainly focused on solving incompatibilities and clarifying vocabulary (effective for annual periods beginning on or after 1 January 2019),
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018),

- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

The Management Board does not expect the introduction of the above standards and interpretations to have a material effect on the accounting principles applied by the Bank in the period of their initial application, with the exception of IFRS 9, which will apply from 1 January 2018, and IFRS 16, which will apply from 1 January 2019. Information on IFRS 16 is included in note 2.10 Leases.

The description of the impact of IFRS 9 on the financial statements of the Bank is presented below.

In July 2014, the International Accounting Standards Board published IFRS 9, effective from 1 January 2018 and replaced the existing IAS 39 standard. IFRS 9 sets out new rules for the classification and measurement of financial instruments.

The standard indicates the following financial assets measurement methods:

- at amortized cost,
- at fair value (recognized in other comprehensive income or in the profit and loss account).

The classification of financial assets is based on:

- the results of the business model assessment in terms of financial asset management and
- characteristics of cash flows under the contract for a financial asset.

In preparation for the implementation of IFRS 9, the Bank assessed whether particular types of instruments are maintained in order to obtain contractual cash flows, as well as for sale of an asset or for other purposes.

When determining the business model, the Bank analysed the method of actual management of its financial assets portfolios in order to implement the adopted general business objective and the future approach of the management to instruments in given portfolios.

When assessing the business model, the Bank was guided by the following criteria:

- previous experience and practice in the field of financial asset management,
- reference of management rules at the level of aggregated groups of financial assets, not individual instruments,
- current practice and planned activities regarding the sale of financial asset portfolios,
- risks and risk management in reference to the business model.

The Bank has determined whether for individual groups of financial assets it intends to realize cash flows from contractual payments over the entire life of the instrument, from its sale or from contractual payments throughout the life of the instrument, but specifying the potential future asset sale option.

Based on the above, the Bank identified the following business models in its operations:

a. "retention" – this business model provides for retaining financial assets to obtain contractual cash flows. The Bank has adopted such a business model for the amounts due from the financial sector item and for loans and credits granted to customers. The Bank took into account the fact of selling loan portfolios in the past and the future. However, such transactions always concerned and, as intended by the Bank, will concern only impaired portfolios for which no further recoveries are expected. The Bank's aim is to achieve economic benefits from its loan portfolios throughout the life cycle of products, and a possible sale concerns portfolios, on which such benefits will no longer be obtained.

b. "retention and sale" – this business model provides for both retaining financial assets to obtain contractual cash flows as well as a sale thereof. The Bank has adopted such a business model for the portfolio of debt securities currently classified under the terms of IAS 39 to the AFS portfolio,

c. "other" – this model applies to financial assets that can not be included either in the "retention" business model or the "retention and sale" model.

Based on business models identified in this way, the Bank carried out a balance-sheet classification of financial assets and determined their valuation models.

For the purpose of determining the characteristics of cash flows, the Bank performed a comprehensive review of contractual provisions for individual product portfolios. The Bank carried out SPPI tests (solely payments of principal and interest), taking into account the qualitative as well as quantitative factors in their interpretation.

The Bank adopted the following valuation methods for significant groups of financial assets:

a. The portfolios of credits and loans granted to customers and amounts due from banking entities were classified by the Bank to the "retention" portfolio. These assets have passed the SPPI tests positively, the Bank will measure them at amortized cost,
b. Debt securities were classified by the Bank to the "retention and sale" portfolio. The Bank will measure them at their fair value recognized in other comprehensive income,
c. Equity instruments, in particular the shares of Visa Inc., were qualified be the Bant to the "sale" portfolio. The Bank will measure them at fair value with the measurement effect recognized in the profit and loss account. The Bank will reclassify this asset from the category of assets available for sale. Accumulated profits/losses recognized so far in other comprehensive income will be recognized in the financial result under IFRS 9.

Impact of the implementation of IFRS 9 on the classification of financial assets

Financial assets	**IAS 39**	**IFRS 9**
Amounts due from customers	financial assets estimated at amortized cost	financial assets estimated at amortized cost
Amounts due from banks and financial institutions	financial assets estimated at amortized cost	financial assets estimated at amortized cost
Available-for-sale financial assets_debt securities	assets measured at fair value recognized in other comprehensive income	assets measured at fair value recognized in other comprehensive income
Available-for-sale financial assets_equity securities	assets measured at fair value recognized in other comprehensive income	assets measured at fair value are recognized in the profit and loss account

The implementation of IFRS 9 will not result in the need for significant reclassifications of assets between individual measurement methods. Taking into account the discrepancies in interpretation, the Bank did not decide to apply the valuation method at fair value recognized in the profit and loss account in respect of loans, for which the interest rate formula in based on a multiplier.

On the basis of the analysis of the provisions of product agreements, the Bank initially assumed that it would apply such a measurement model in relation to the credit card portfolio. However, bearing in mind the arguments indicated by the Polish Financial Supervision Authority, included in the letter to commercial banks of 12 December 2017, the Bank decided to apply the measurement at amortized cost. The Bank calculated the carrying amount of this portfolio as at 31 December 2017 based on both methodologies, and the results obtained do not indicate significant differences. The carrying amount of the credit card portfolio at amortized cost amounted to mPLN 95, and at the fair value amounted to mPLN 96.1. A possible effect of the valuation of the credit card portfolio at fair value would therefore not have a significant impact on its balance sheet valuation.

At the same time, the Bank took actions aimed at changing the provisions of agreements with customers so that they would not raise any doubts as to the application of measurement at amortized cost in relation to credit portfolios, in accordance with the requirements of IFRS 9.

IFRS 9 standard introduces significant changes in the assessment of impairment of financial assets.

Under IFRS 9, the Bank will estimate allowances for expected credit losses 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. Estimations of the impairment estimation parameters are adjusted based on the expectations regarding the macroeconomic situation, i.e. forward looking approach.

Starting from 2018, the Bank implemented a methodology for estimating expected credit losses. 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): initial recognition. Financial assets for which the credit risk did not increase materially from the initial recognition and for which the allowance is determined at the level of 12-month expected credit losses,
- Segment 2 (Stage 2): receivables characterized by a premise indicating a significant increase in credit risk, for which the expected losses are calculated throughout the exposure horizon,
- Segment 3 (Stage 3): impaired receivables corresponding to the group of impaired loans are currently identified in accordance with IAS 39. The expected credit loss is estimated throughout the exposure horizon.

The methodology for estimating expected credit losses developed by the Bank includes, in particular, the modelling of PD parameters for portfolios classified according to current regulations to the non-impaired group (stage 1 and stage 2). 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 behavioural 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. Additional criteria used in classification to Segment 2 are the following:

quarantine after reclassification of an agreement to the non-impaired category after previous restructuring and the customer having other agreements in Segment 2. The methodology for estimating the probability of occurrence of the impairment event uses the approximation of the future level of probability of impairment based on the cumulative default curves.

The estimates of the expected level of losses are verified with the expectations regarding the development of the macroeconomic situation quantified on the basis of scenario-based analysis using statistical models. The final adjustment for expectations regarding the macroeconomic situation is approved by the Management Board of the Bank. In the impairment calculation base, the Bank takes into account both the carrying amount of receivables and the level of unused credit lines. The Bank adopted a prudent assumption on the full use of credit lines for the purpose of estimating the allowance. The LGD level used to estimate the allowances corresponds to the LGD estimated for the purpose of estimating the allowance for impaired receivables. As in case of LGD models, PD models are covered by the model risk management process implemented at the Bank.

The implementation of IFRS 9 gave rise to an increase in the balance of allowances for non-impaired receivables as of 1 January 2018. In addition, the Bank identified portfolios as part of impairment estimation, for which adjustments were made due to the expected macroeconomic situation and uncertainty in the estimation of some parameters, the so-called forward looking approach.

The effects of the change in the method of valuation of expected credit losses as of the date of implementation of IFRS 9 will be charged to retained earnings. The table below presents the impact of the new standard on the opening balance of 2018.

Impact of the implementation of IFRS 9 on the opening balance of 2018

Expected credit losses for Stage 1 and Stage 2 as at 1 January 2018	**IAS 39**	**IFRS 9**	**change**
Amounts due from banks	**(12)**	**(3)**	**9**
Amounts due from customers	**(42 152)**	**(144 728)**	**(102 576)**
mortgage loans	(5 142)	(17 734)	(12 592)
stage 1		(5 276)	
stage 2		(12 458)	
credit cards	(359)	(1 562)	(1 203)
stage 1		(1 093)	
stage 2		(469)	
cash loans	(36 338)	(122 675)	(86 337)
stage 1		(80 838)	
stage 2		(41 837)	
other credits and loans	(313)	(2 757)	(2 444)
stage 1		(1 628)	
stage 2		(1 129)	
Financial assets held as investment	**-**	**(440)**	**(440)**
Other assets	**(9 400)**	**(9 756)**	**(356)**
Off-balance-sheet amounts due to customers	**-**	**(4 512)**	**(4 512)**
TOTAL	**(51 564)**	**(159 439)**	**(107 875)**
TAX	**-**	**-**	**20 496**
NET INFLOW	**-**	**-**	**(87 397)**

The table below presents the carrying amount of assets and liabilities of the Bank resulting from the implementation of IFRS 9 as a 1 January 2018.

(PLN '000)	IAS 39	IFRS 9	change
Amounts due from banks	99 025	99 034	9
Amounts due from customers	11 731 301	11 628 725	(102 576)
Other assets	36 490	36 134	(356)
Provisions	2 164	7 116	4 952

The value of other financial asset and liabilities items presented in the financial statements as a result of the implementation of IFRS 9 has not changed. The implementation of IFRS 9 did not affect the value of financial liabilities as at 1 January 2018.

In the hedge accounting area, the Bank decided, based on the provisions of par. 7.2.21 of IFRS 9, to continue applying the hedge requirements and relationships under IAS 39.

The total value of the impact of IFRS 9 in the amount of kPLN 107,875 and the effect of deferred tax resulting from the implementation in the form of an increase in net deferred tax asset in the amount of kPLN 20,496 decreased the balance of retained earnings as at 1 January 2018. In addition, as at the date of first recognition, the Bank reclassified to the retained earnings the amount of the revaluation reserve of financial assets, for which the Bank adopted the estimation at fair value through the profit and loss account in the amount of kPLN 2,595.

For the purpose of measuring and assessing the level of capital adequacy, the Bank decided to amortize the impact of IFRS 9, in line with the possibility defined in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. This Regulation specifies that where an institution's opening balance sheet on the day that it first applies IFRS 9 reflects a decrease in Common Equity Tier 1 capital as a result of increased expected credit loss provisions, including the loss allowance for lifetime expected credit losses for financial assets that are credit-impaired, compared to the closing balance sheet on the previous day, the institution should be allowed to include in its Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period over a duration of 5 years.
As a result of the implementation of IFRS 9 and using the capital requirements of the above transition period regulations for regulatory calculations, the Tier 1 capital ratio and the Bank's total capital ratio will not be significantly reduced.

Impact of IFRS 9 on capital adequacy

(PLN '000)	IAS 39	IFRS 9*	change
Own funds	1 645 114	1 624 758	(20 356)
Tier 1 ratio	13.61%	13.41%	(0.20%)
Total capital ratio	16.01%	15.82%	(0.19%)

**values estimated based on data as at 1 January 2018*

2.4. Changes in the presentation in the financial statements

n 2017, in the calculation of the effective interest rate the Bank included revenues and costs directly related to cash loans, which form an integral part thereof.

As a result of the adjustment, the comparative data for 2016 changed. These changes involve the reclassification between items in the profit and loss account and have no impact on the Bank's net financial result. Detailed data is presented in the table below.

Change in the presentation of data for 2016

(PLN '000)	2016	adjustment	2016 transformed
Interest income	842 099	703	842 802
Commission income	109 932	(9 859)	100 073
Fee and commission expense	(47 990)	2 984	(45 006)
Operating expenditure	(458 463)	6 172	(452 291)

Statement of comprehensive income for the year ended on 31 December 2016 – transformed data

(PLN '000)	2016	adjustment	2016 transformed
Going concern business			
Interest income	842 099	703	842 802
Interest expense	(202 499)		(202 499)
Net interest income	**639 600**	**703**	**640 303**
Commission income	109 932	(9 859)	100 073
Fee and commission expense	(47 990)	2 984	(45 006)
Net commission income	**61 942**	**(6 875)**	**55 067**
Net income on financial operations	48 297	-	48 297
Foreign exchange result	3 147	-	3 147
Fair value adjusment result in hedge accounting	**(11 911)**	**-**	**(11 911)**
Net banking income	**741 075**	**-**	**734 903**
Other operating income	79 172	-	79 172
Other operating expense	(19 661)	-	(19 661)
Operating expenditure	(458 463)	6 172	(452 291)
Depreciation	(35 173)	-	(35 173)
Result on impairment losses	(126 722)	-	(126 722)
Gross result on operations	**180 228**	**-**	**180 228**
Gross profit (loss)	**180 228**	**-**	**180 228**
Income tax	**(38 246)**	**-**	**(38 246)**
Net profit (loss)	**141 982**	**-**	**141 982**
Other comprehensive income – items that may be reclassified to the profit and loss account	**(23 110)**	**-**	**(23 110)**

Net profit (loss) on revaluation of financial assets available for sale	(23 766)	-	(23 766)
- including deferred tax	5 576	-	5 576
Net profit (loss) on valuation of derivatives hedging cash flows and fair value (resulting from contracts not settled at the reporting date):	656	-	656
- including deferred tax	(154)	-	(154)
Items that cannot be reclassified to the profit and loss account	**-**	**-**	**-**
Total other comprehensive income	**(23 110)**	**-**	**(23 110)**
Total net comprehensive income	**118 872**	**-**	**118 872**

2.5. 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 or through other comprehensive income, 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 or the fair value less costs to sell.

2.6. 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 2017	*31 December 2016*
USD	3.4813	4.1793
EUR	4.1709	4.4240
CHF	3.5672	4.1173
GBP	4.7001	5.1445
SEK	0.4243	0.4619
NOK	0.4239	0.4868
DKK	0.5602	0.5951

CZK	0.1632	0.1637

The above exchange rates are applied at the Bank, in particular in connection with the introduction of foreign currency services for retail customers in 2017.

Foreign exchange gains and losses arising from the settlement of transactions and balance sheet valuation of 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.

2.7. Portfolio of loans denominated in a foreign currency

The bank has a portfolio of foreign currency mortgage loans.

On 1 August 2017, the President of the Republic of Poland presented a draft Act amending the Act on the support for mortgage borrowers in difficult financial situation and on corporate income tax. The draft Act is aimed, among others, at the liberalization of the conditions that should be met while applying for support from the Borrowers Support Fund and introduces a new legal instrument allowing for the "conversion" of loans indexed or denominated in foreign currencies at the bank's initiative. An important change provided for in the draft Act is the possibility for the lender to obtain funds from the Restructuring Fund for the purpose of supporting voluntary restructuring, consisting in covering the difference between the balance sheet value of debt to be restructured and the balance sheet value of the restructured debt from the newly established Restructuring Fund. The amounts of these receivables are to be determined based on the average exchange rate of the National Bank of Poland on the day preceding the agreement date and the average exchange rate of the National Bank of Poland on the agreement date. The lender may apply for the allocation of funds for the purpose of voluntary restructuring of the amounts due to be restructured up to the amount of the quarterly contribution made by the bank. The Support for voluntary restructuring does not apply to cases where the determination of the total amount of the housing loan principal as a result of voluntary restructuring is made using a rate lower than the rate used by the lender when disbursing the loan. If the funds paid by the bank to the Restructuring Fund are not used, the Fund's Board will adopt a resolution on the distribution of unused funds resulting from such payment. The draft Act also provides for the possibility for the Polish Financial Supervision Authority to issue a recommendation for banks, specifying the rules for determining the order of voluntary restructuring of restructured debts, bearing in mind the stability of the financial system and the efficient use of funds under the Restructuring Fund. The draft Act amending the act on the support for mortgage borrowers in a difficult financial situation and on corporate income tax has been filed to the Parliament on 1 August 2017 (doc. number 1863). On 13 October 2017, the first reading of the draft took place, during which the scope of changes envisaged in the proposed regulation was presented in detail. After the first reading, the draft Act was transferred for further work in the Public Finance Committee. On 9 February 2018, the government expressed a positive attitude towards the proposals contained in the presidential draft amendment to the Act on financial support for mortgage borrowers in a difficult financial situation, regardless of the currency of housing loans. As at the date of this information, the legislative status of the draft Act has not changed.

2.8. Fixed assets for sale

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 intended 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.

2.9. 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	10.0 – 20.0 %
Vehicles	14.0 – 20.0 %
Computer hardware	10.0 – 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.

2.10. 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.

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.

2.11. 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.

As of the reporting periods beginning after 1 January 2019, the new reporting standard, IFRS 16, will apply to the recognition and presentation of leases.
IFRS 16 "Leases" was issued by the International Accounting Standards Board on 13 January 2016. In accordance with IFRS 16, the lessee recognizes the right to use an asset and the liability under lease. The right to use an asset is treated as other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the current value of lease payments payable during the lease period, discounted by the rate included in the lease, if its determination is not difficult. If the rate cannot be easily determined, the lessee applies the marginal interest rate. With regard to the classification of lease at the lessors, it is carried out in accordance with IAS 17, i.e. as operating or financial lease. The lessor classifies the lease as a financial lease if it transfers substantially all the risks and rewards on the ownership of the related assets. Otherwise, the lease is classified as an operating lease. Under a financial lease, the lessor recognizes financial income over the lease term, based on a fixed periodic rate of return on the net investment. The lessor recognizes operating lease payments in revenues on a straight-line basis or in another systematic manner, if it better reflects the pattern of obtaining benefits from the use of related assets.
In accordance with IFRS 16, a contract is of a lease nature if the lessee, in return for consideration, has the right to exercise control, including the collection of economic benefits, over the use of an identified asset for a specified period of time. A contract can be considered a lease contract if it meets the following criteria:

- the performance of the terms of the contract applies to a specific asset that is identifiable either unequivocally or implicitly, and the lessor cannot have a material conversion right,
- the contract transfers the right to control the use of an asset in return for consideration. The lessee has the right to use and to receive economic benefits from the use of this asset.

At the Bank, the regulations of the IFRS 16 standard will apply to contracts for the rental of buildings (the Bank's HQ and bank branches) and the lease of means of transport. The Bank is in the process of analysing the above contracts and assessing the impact of IFRS 16 on the accounting principles applied.

2.12. 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 independently 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, reflecting the current market assessment of time value of money and the risks specific to the asset. Impairment losses of assets used in continued operations are recognized in these other operating expenses or revenues.

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.

2.13. 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 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.

In 2017 and 2016, the Bank did not qualify any of the asset items to the held-to-maturity category.

Financial assets measured at fair value through profit and loss are measured at market value as at the reporting date without sale transaction costs. Changes in the value of these 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.

Other financial assets are classified in the **available-for-sale category**. 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 long-term or material 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 removed from the balance sheet when, in principle, all benefits and risks related to the financial asset are transferred outside the Bank, and when the Bank loses control over the contractual rights attributable to a given financial instrument. This usually happens when the instrument is sold or when all cash flows attributed to the instrument are transferred to an independent third party.

2.14. 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 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,
- impairment as a result of the events indicated above on another account of the borrower, the so-called "contagion".

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 Bank applies the IBNR provisioning methodology based on statistical approach, which 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, 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.

In May 2017, the Bank identified an additional homogenous portfolio in the LGD model (Loss Given Default) for consumer loans. The separated portfolio is composed of settlement agreements signed with customers who, due to the improvement of their financial situation, declare their willingness to repay the amounts previously terminated. In the LGD model for the settlements segment, a 4-year recovery recognition horizon has been applied. As a result of the implementation of the change, the level of impairment allowances decreased by mPLN 11.4, which accounted for 1.7% of the total level of allowances.

Starting from November 2017, the Bank introduced more prudent assumptions in the impairment evidence identification algorithm. The changes involve the classification of all customer's debts to the impairment category provided that the impairment in at least one customer's debt is identified. The change did not affect the total level of allowances, the debts reclassified to impairment category were covered by an adequate IBNR allowance.

b. 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.

2.15. Financial derivatives and hedges

Derivative financial instruments are recognized at fair value, which is determined based on quotations of the instruments on active markets, and in the absence of such a market, based on measurement techniques based on discounted cash flow models. Derivatives are carried as assets when their fair value is positive, or as liabilities - when their fair value is negative.

The recognition of changes in fair value in the books depends on the designation of a derivative instrument for hedge accounting, and in case of such designation, also on the type of hedged item. Gains and losses arising from changes in the fair value of derivatives not designated to hedge accounting are recognized in profit or loss.

The Bank benefits from the exemption of intra-group derivative transactions that are traded outside the regulated market from the clearing obligation by the central counterparty and the obligation to exchange collaterals provided for, respectively, in Article 4(1) and Article 11(3) of Regulation (EU) 648/2012 of the

European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR).

The Bank holds the following derivatives in its portfolio:

Interest rate risk instruments:

- Interest rate swaps (IRS)

FX risk instruments:

- FX Forward, Non deliverable forward (NDF)

With respect to derivative instruments designated for hedge accounting, the Bank applies:

- 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 applies 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. In connection with the Bank's first adoption of IFRS 9, starting from 1 January 2018, and indirectly also to maintain reporting consistency within the Societe Generale Group, the Bank will benefit from transitional provisions in accordance with Article 7.2.21 of IFRS 9 and the allowed option to continue hedge accounting based on the requirements of IAS 39.

2.16. 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.

2.17. 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.

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.

2.18. 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.

2.19. Other receivables

Trade receivables are recognized and carried at original invoice amounts less an allowance for doubtful receivables. Losses 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.

2.20. 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.

2.21. 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:

a. such 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
b. 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
c. financial liabilities contain embedded derivatives that should be recognized separately.

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. As at 31 December 2017, no financial liabilities have been designated as measured at fair value through profit or loss.

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. This measurement method is applied to amounts due to banks, amounts due to customers and debt securities issued by the Bank.

Bank derecognizes a financial liability when the liability expires, i.e. when the obligation specified in the contract is fulfilled, cancelled 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.

2.22. Provisions

Provisions are created when the Bank is subject to an obligation (legal or constructive) resulting from past events and it is probable that fulfilment 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.

2.23. 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.

2.24. 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 derecognised 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.

2.25. 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 period by the expiry of the 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 2.25h.

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 foreign currency personal accounts, foreign currency transfers, 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 in particular 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 absence of fulfilment of the above-mentioned conditions, the Bank additionally performs a detailed analysis of the economic substance of the product, including the fulfilment 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.

2.26. Taxes

a. Preliminary remarks

Tax regulations in force in Poland are subject to frequent changes, causing significant differences in their interpretation and significant doubts as to the application thereof.

The tax authorities have control instruments enabling them to verify the tax bases (in most cases, during the previous 5 financial years) and to impose penalties and fines.

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 behaviour 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 require much greater judgment when assessing the tax implications of individual transactions. The GAAR clause is 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 enables the Polish tax control authorities to question the legal arrangements and agreements made by taxpayers, such as restructuring and reorganization of the group.

As a consequence, the determination of tax liabilities may require significant judgment, including in respect of transactions that have already occurred, and the amounts of tax charges presented and disclosed in financial statements may change in the future as a result of tax audits.

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, in respect of items recognized in other comprehensive income or directly in equity, in respect of 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.

2.27. 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 2.14. The value of impairment in respect of amounts due from banks is presented in note 16, and in respect of amounts due from customers in note 17 of the financial statements.

- **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. Information on the impairment of non-current assets estimated by the Bank is presented in note 20.

- **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.

The value of insurance income is presented in note 5.

- **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 2.9 and 2.10 present the amortization rates for tangible fixed assets and intangible assets.

- **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.

Information on the value of deferred tax assets is presented in note 21.

NOTES TO THE PROFIT AND LOSS ACCOUNT

3. Interest income

(PLN '000)	2017	2016*
Interest income calculated using the effective interest rate method, of which:	**867 151**	**843 563**
Income on bank deposits	8 403	9 425
Income on credits and loans for customer (individuals):	827 441	814 046
- non-impaired loans	784 162	771 763
- impaired loans	43 279	42 283
Income on financial assets available for sale	30 590	19 177
Credits and loans from banks	717	915
Derivative hedge instruments	**(856)**	**(761)**
TOTAL	**866 295**	**842 802**

**transformed data*

4. Interest expense

(PLN '000)	2017	2016
Interest expense calculated using the effective interest rate method, of which:	**203 986**	**200 128**
Cost of liabilities to banks and financial institutions:	105 196	107 407
- Banks	100 272	101 288
- Financial institutions	4 924	6 119
Cost of liabilities to customers:	83 364	81 695
- Individuals	83 364	81 695
Costs of amounts due to debt securities issuance	15 423	11 019
Costs of loans extended to customers	3	7
Derivative hedge instruments	**139**	**2 371**
TOTAL	**204 125**	**202 499**

5. Commission income

Z komentarzem [d1]: Insert an asterisk and list the main types of other commissions. Thank you

(PLN '000)	2017	2016*
Commission income on sale of insurance	49 900	57 863
Commissions for transactions on customer accounts	17 395	15 367
Commissions for payment and credit card servicing	14 072	15 258
Commissions and fees for loans granted	8 433	9 764
Other commissions	2 594	1 821
TOTAL	**92 394**	**100 073**

*transformed data

6. Fee and commission expense

(PLN '000)	2017	2016*
Credit intermediation commissions	10 873	11 807
Commissions for payment and credit card servicing	28 122	30 159
Expense on insurance sale	1 009	1 873
Other fees and commissions	1 805	1 167
TOTAL	**41 809**	**45 006**

*transformed data

7. Net income on financial operations

(PLN '000)	2017	2016
Derivative hedge instruments - cash flows hedging	33	300
Derivative hedge instruments - fair value hedging	(1 780)	11 706
Income from the sale of equity instruments*		36 252
Dividends received	77	39
Other	142	-
TOTAL	**(1 528)**	**48 297**

* *In 2016, these are revenues from the exchange transaction of Visa Eur shares to Visa Inc.*

8. Foreign exchange result

(PLN '000)	2017	2016
Foreign exchange income	152 475	163 012
Foreign exchange costs	(148 387)	(159 865)
TOTAL	**4 088**	**3 147**

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 2017, as well as by the settlement of invoices. In addition, in November 2017, the Bank introduced foreign currency accounts and foreign currency payments. Currency risk management is described in note 38.

9. Other operating income

(PLN '000)	2017	2016
Other sales income*	145	24 593

Income on collection fees	15 726	17 191
Recovered receivables written off the balance sheet**	17 608	21 432
Income on reinvoices to franchisees	3 254	2 493
Income on management of sold receivables	7 674	10 059
Release of provisions for liquidation of branches	252	-
Release of provisions for expected losses	490	538
Income on disposal of fixed assets, intangible assets and assets held for sale	-	130
Release of provisions for legal claims	125	572
Impairment losses on receivables	961	551
Other	1 159	1 613
TOTAL	**47 394**	**79 172**

** 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 9.4 in 2017 (MPLN 10.4 in 2016).***

In 2017, the Bank sold NPL portfolios to the principal nominal value of mPLN 85.8.

The "Other operating income" item presents revenues on the sale o NPL portfolios in the off-balance sheet of the Bank.

10. Other operating expense

(PLN '000)	2017	2016
Related to liquidation of fixed assets, intangible assets and assets held for sale	692	965
Collection and court costs	5 968	9 345
Impairment losses on receivables	1 610	1 232
Provisions for expected losses	225	1 750
Provisions for liquidation of branches	743	-
Other provisions	174	25
Franchise costs	1 341	669
Complaint costs	609	744
Costs due to management of sold receivables	1 814	3 059
Costs on disposal of fixed assets, intangible assets and assets held for sale	23	-
Other	5 768	1 872
TOTAL	**18 967**	**19 661**

11. Operating expenditure

(in PLN '000)	2017	2016*
Employee costs	**219 369**	**205 681**
Remunerations	177 692	167 648
Social insurance	30 828	28 684
Other costs of employee benefits	10 849	9 349
Material costs	**229 511**	**246 610**
Building rental costs	58 985	60 937
Promotion and advertising services	32 479	37 483
Cost of consultancy and specialized services	20 467	24 220
IT and telecommunications services	27 164	24 980
Cost of purchase of materials	10 179	11 453
Contribution and payments to the Bank Guarantee Fund	14 401	24 040
Postal fees	5 136	3 939

Taxes and charges	35 860	29 254
- including the banking tax	29 343	25 482
Property insurance costs	3 157	3 207
Vehicle fleet management costs	6 600	7 427
Other material costs	15 083	19 670
TOTAL	**448 880**	**452 291**

**comparable data*

12. Depreciation

(in PLN '000)	2017	2016
Depreciation of tangible fixed assets	20 501	19 989
Depreciation of intangible assets	15 753	15 184
TOTAL	**36 254**	**35 173**

13. Result on impairment losses

(in PLN '000)	2017	2016
Impairment losses	**(166 358)**	**(160 988)**
Individuals	(166 357)	(160 966)
- allowances for incurred but not reported losses (IBNR)	(9 674)	(15 613)
Mortgage loan	(2 948)	(3 869)
Credit card	(85)	(178)
Cash loan	(4 851)	(9 581)
Other credits and loans	(1 790)	(1 985)
- allowances for impaired receivables	(156 683)	(145 353)
Mortgage loan	(18 794)	(24 296)
Credit card	(2 395)	(5 130)
Cash loan	(123 780)	(107 545)
Other credits and loans	(11 714)	(8 382)
Banks	(1)	(22)
- allowances for incurred but not reported losses (IBNR)	(1)	(22)
Released impairment losses	**44 454**	**34 266**
Individuals	42 346	25 526
- release of allowances for incurred but not reported losses (IBNR)	23 959	9 662
Mortgage loan	10 322	8 910
Credit card	256	114
Cash loan	10 896	258
Other credits and loans	2 485	380
- release of allowances for impaired receivables	18 387	15 864
Mortgage loan	9 050	12 231
Credit card	608	176
Cash loan	8 667	3 360
Other credits and loans	62	97
Banks	8	22
- release of allowances for incurred but not reported losses (IBNR)	8	22
Release of provision for potential claims on sale of the loan portfolio	2 100	8 718
NET IMPAIRMENT ALLOWANCE	**(121 904)**	**(126 722)**

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)	2017	2016
Income tax charged to profit/loss for a given financial year		
- current portion	(33 459)	(13 521)
- current portion (income tax adjustment of previous years)	1 422	-
- change in (net) deferred tax asset	(3 282)	(24 725)
- change in (net) deferred tax asset (tax adjustment of previous years)	(434)	-
TOTAL	**(35 753)**	**(38 246)**

The current tax adjustment results from the fact that in 2017 the Bank benefited from the right to a reduction in connection with expenditures on new technologies in previous years.

The change in deferred tax assets results mainly from the binding interpretation of tax law received by the Bank after the end of the financial year, indicating the need to recognize taxable income in the portion concerning deferred remuneration for the transfer of ownership of Visa Europe shares in 2016 as of its due date.

Determination of the effective tax rate

(in PLN '000)	2017	2016
Income tax calculation – current portion		
Profit before tax	138 590	180 228
Income tax at the statutory rate of 19%	**(26 332)**	**(34 243)**
- State Fund for Rehabilitation of Disabled Persons (PFRON)	(425)	(489)
- non-deductible contributions to organizations	(2 766)	(1 432)
- non-deductible credit allowance costs	(944)	(347)
- partial write-off for unused losses from previous years	0	3 240
- tax on certain financial institutions	(5 575)	(4 842)
- other	289	(133)
Income tax charged to profit/loss for a given financial year	**(35 753)**	**(38 246)**
Effective tax rate %	**25,80**	**21,22**

NOTES TO THE STATEMENT OF FINANCIAL POSITION

15. Cash and deposits in the Central Bank

(PLN '000)	31.12.2017	31.12.2016
Cash	59 940	76 049
Funds on accounts in Central Bank	103 297	27 237
TOTAL	**163 237**	**103 286**

Cash includes funds in domestic and foreign currencies 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 2017, the Bank was obliged to maintain an average reserve of kPLN 248,539. In the reporting period covering the 31st of December 2016, the Bank maintained a reserve of kPLN 233,284.

16. Amounts due from banks

a) structure of receivables

(in PLN '000)	31.12.2017	31.12.2016
Current accounts	27 895	18 471
Term deposits	71 142	114 335
Other receivables	-	7
Gross total	**99 037**	**132 813**
Impairments	**(12)**	**(20)**
- term deposit IBNR impairment loss	(12)	(20)
TOTAL	**99 025**	**132 793**

In 2017 and 2017 no impairment loss on receivables from banks has been recognized.

b) structure by risk groups

(in PLN '000)	31.12.2017	31.12.2016
Non-impaired receivables	99 037	132 813
IBNR impairment losses	(12)	(20)
TOTAL	**99 025**	**132 793**

c) change in impairment losses

As at 1 January 2017 *(PLN '000)*	(20)
Change in value of impairments:	-
IBNR impairment loss on deposits offered to banks	-
Used impairments	-
Release of IBNR impairment losses on deposits offered to banks	8
As at 31 December 2017 *(PLN '000)*	**(12)**

As at 1 January 2016 *(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)**

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

(in PLN '000)	31.12.2017	31.12.2016
up to 30 days	28 040	18 616
30 to 90 days	24	24
90 to 180 days	-	42 000
180 days to 1 year	-	-
1 to 3 years	70 000	20 000
3 to 5 years	-	50 000
over 5 years	-	-
TOTAL	**98 064**	**130 640**

17. Customer loans

a) structure by risk groups

(PLN '000)	31.12.2017	31.12.2016
Gross value		
Non-impaired receivables	11 310 737	11 050 679
Impaired receivables	1 076 585	963 125
- including individually measured	215 580	188 378
- including portfolio measured	861 005	774 747
Gross total	**12 387 322**	**12 013 804**
Impairments	(656 021)	(615 949)
impairment loss for non-impaired receivables	(42 152)	(56 437)
impairment loss for impaired receivables	(613 869)	(559 512)
- including exposures measured individually	(71 384)	(66 981)
- including exposures measured on a portfolio basis	(542 485)	(492 531)
Net receivables	**11 731 301**	**11 397 855**

b) structure by products

(PLN '000)	31.12.2017	31.12.2016
Gross value	**12 387 322**	**12 013 804**
Non-impaired receivables	**11 310 737**	**11 050 679**
Mortgage loan	6 150 498	6 288 172
Credit card	88 239	95 001
Cash loan	4 825 303	4 600 138
Other credits and loans	246 697	67 368
Impaired receivables	**1 076 585**	**963 125**
Mortgage loan	215 580	188 378
Credit card	20 713	23 329
Cash loan	801 074	724 700
Other credits and loans	39 218	26 718
Impairment losses (including IBNR)	**(656 021)**	**(615 949)**
Impairment loss for non-impaired receivables	**(42 152)**	**(56 437)**
Mortgage loan	(5 142)	(12 516)
Credit card	(359)	(530)
Cash loan	(35 076)	(41 121)
Other credits and loans	(1 575)	(2 270)

Impairment loss for impaired receivables	**(613 869)**	**(559 512)**
Mortgage loan	(71 384)	(66 981)
Credit card	(13 553)	(15 200)
Cash loan	(491 223)	(450 915)
Other credits and loans	(37 709)	(26 416)
Net receivables	**11 731 301**	**11 397 855**

c) structure of receivables by customers

(in PLN '000)	31.12.2017	31.12.2016
Gross value	**12 387 322**	**12 013 804**
Individuals	12 387 322	12 013 804
Impairments	**(656 021)**	**(615 949)**
Individuals	(656 021)	(615 949)
Net receivables	**11 731 301**	**11 397 855**

d) structure of receivables by customers

As at 1 January 2017 (in PLN '000)	**(615 949)**
Change in value of impairments:	
Impairment of loans and credits extended to customers	(166 357)
Total amounts charged to provisions	83 939
Reversal of impairment losses	42 346
As at 31 December 2017 (in PLN '000)	**(656 021)**

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)**

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

(in PLN '000)	31.12.2017	31.12.2016
up to 30 days	823 225	730 830
30 to 90 days	293 687	253 749
90 to 180 days	392 716	345 737
180 days to 1 year	717 087	653 952
1 to 2 years	1 271 918	1 187 894
2 to 5 years	3 009 627	2 824 690
over 5 years	6 228 292	6 384 601
TOTAL	**12 736 552**	**12 381 453**

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)*	31.12.2017	31.12.2016

With unlimited transferability, unlisted on stock exchange and not placed on regulated over-the-counter market	**1 484 659**	**1 748 931**
Debt securities:	1 484 659	1 748 931
- treasury bonds	1 351 395	1 453 291
- money bills	45 818	210 880
- other bonds	87 446	84 760
Unlisted stock	**9 369**	**7 019**
Total	**1 494 028**	**1 755 950**

The "Unlisted stock" item includes the shares of Visa Inc.

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

Maturity dates (*PLN '000)*	**31.12.2017**	**31.12.2016**
Without maturity	9 369	7 019
Up to 1 month	45 818	765 324
From 3 to 6 months	62 010	-
From 6 months to 1 year	354 893	203 188
1 to 2 years	101 237	205 898
2 to 5 years	833 255	489 761
over 5 years	87 446	84 760
Total	**1 494 028**	**1 755 950**

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 2017	**43**	**39 844**	**74 701**	**36 820**	**9 915**	**4 638**	**165 961**
Additions due to:	-	-	7 572	12 394	1 065	18 014	39 045
purchase	-	-	46	5 975	1 036	18 014	25 071
acceptance for use	-	-	7 526	6 419	29	-	13 974
reclassification between groups	-	-	-	-	-	-	-
Disposals due to:	-	-	-	6 434	-	11 057	17 491
release for use	-	-	-	6 419	-	7 555	13 974
reclassification between groups	-	-	-	-	-	2 781	2 781
liquidation	-	-	-	15	-	-	15
release of provisions	-	-	-	-	-	721	721
Gross value as at 31 December 2017	**43**	**39 844**	**82 273**	**42 780**	**10 980**	**11 595**	**187 515**
Depreciation as at 1 January 2017	**43**	**-**	**45 813**	**24 289**	**8 966**	**-**	**79 111**
Additions	-	-	8 771	6 597	385	-	15 753
- depreciation	-	-	8 771	6 597	385	-	15 753
- reclassification between groups	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
- including reclassification between groups	-	-	-	-	-	-	-
Depreciation as at 31 December 2017	**43**	**-**	**54 584**	**30 886**	**9 351**	**-**	**94 864**
Impairments 01.01.2017	**-**	**39 844**	**-**	**-**	**-**	**-**	**39 844**
Impairments 31.12.2017	**-**	**39 844**	**-**	**-**	**-**	**-**	**39 844**
Net value as at 1 January 2017	**-**	**-**	**28 888**	**12 531**	**949**	**4 638**	**47 006**
Net value as at 31 December 2017	**-**	**-**	**27 689**	**11 894**	**1 629**	**11 595**	**52 807**

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 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	17 391
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	-	11 379	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.

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	Assets for sale	Total
Gross value as at 1 January 2017	**111 152**	**63 293**	**10 547**	**56**	**51 412**	**4 129**	**698**	**241 287**
Additions due to:	2 918	7 842	39	-	1 981	15 524	-	28 304
purchase	1 493	551	32	-	1 932	12 508	-	16 516
acceptance for use	1 425	7 285	7	-	48	-	-	8 765
reclassification between groups	-	6	-	-	1	3 016	-	3 023
Disposals due to:	5 479	27	-	-	1 878	11 454	698	19 536
sale	-	-	-	-	-	-	698	698
liquidation	5 479	27	-	-	1 878	6	-	7 390
release for use	-	-	-	-	-	8 765	-	8 765
reclassification between groups	-	-	-	-	-	242	-	242
release of provisions	-	-	-	-	-	2 441	-	2 441
Gross value as at 31 December 2017	**108 591**	**71 108**	**10 586**	**56**	**51 515**	**8 199**	**-**	**250 055**
Depreciation as at 1 January 2017	**79 166**	**35 085**	**9 392**	**56**	**47 265**	**-**	**-**	**170 964**
Additions	9 731	8 837	229	-	1 704	-	-	20 501
depreciation	9 731	8 837	229	-	1 704	-	-	20 501
other additions	-	-	-	-	-	-	-	-
Disposals due to:	4 819	27	-	-	1 853	-	-	6 699
sale	-	-	-	-	-	-	-	-
liquidation	4 819	27	-	-	1 853	-	-	6 699
other disposals	-	-	-	-	-	-	-	-
Depreciation as at 31 December 2017	**84 078**	**43 895**	**9 621**	**56**	**47 116**	**-**	**-**	**184 766**
Impairment loss as at 1 January 2017	**3 098**	**-**	**-**	**-**	**--**	**-**	**-**	**3 098**
Additions	856	**-**	**-**	**-**	**-**	**-**	**-**	**856**
Disposals	899	**-**	**-**	**-**	**-**	**-**	**-**	**899**
Impairment loss as at 31 December 2017	**3 055**	**-**	**-**	**-**	**-**	**-**	**-**	**3 055**
Net value as at 1 January 2017	**28 888**	**28 208**	**1 155**	**-**	**4 147**	**4 129**	**-**	**66 527**
Net value as at 31 December 2017	**21 458**	**27 213**	**965**	**-**	**4 399**	**8 199**	**-**	**62 234**

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 2016	**113 076**	**60 641**	**10 525**	**56**	**51 766**	**1 571**	**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**	**4 129**	**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.

21. Deferred tax assets

	31.12.2017		31.12.2016	
(PLN '000)	**Base**	**Asset**	**Base**	**Asset**
Tax rate		**19%**		**19%**
Allowances for credit exposures	341 594	64 903	320 130	60 825
Accrued interest to be paid	42 954	8 161	45 142	8 577
Deferred fee and commission income	411 683	78 220	425 962	80 933
Provisions and deferred insurance income	24 846	4 721	28 500	5 415
Valuation of hedge accounting - ineffective part	4 773	907	4 876	926
Accrued expenses	79 325	15 072	77 186	14 665
Impairment losses on other receivables	6 388	1 214	7 114	1 352
Impairment losses on fixed assets	3 055	580	3 097	588
Tax loss	-	-	10 676	2 029
Interest accrued on receivables	(63 994)	(12 159)	(60 764)	(11 545)
Interest accrued and discount on securities	(14 494)	(2 754)	(15 377)	(2 922)
Intangible assets generated internally	(11 893)	(2 260)	(12 531)	(2 381)
Book amortization (tangible assets and intangible assets)	(6 123)	(1 163)	1 122	213
Discount on the deferred consideration from Visa Inc	180	34	267	51
Accrued income	(2 453)	(466)	-	-
Total – Items to profit and loss	**815 841**	**155 010**	**835 400**	**158 726**
Valuation of hedge accounting – effective part	(9 676)	(1 838)	(988)	(188)
Valuation of securities	(8 880)	(1 687)	1 240	236
Total – Items to revaluation capital	**(18 556)**	**(3 526)**	**252**	**48**
Total	**(797 285)**	**151 484**	**835 652**	**158 774**

The Bank analyzes the recoverability of the deferred tax assets and in particular the application of allowances for credit exposures. The Bank did not find any circumstances indicating that the deferred tax asset would not be realized in full.

22. Other assets

Structure of other assets

(PLN '000)	31.12.2017	31.12.2016
Accruals, including:	**11 404**	**14 039**
- rents paid in advance	366	546
- insurances paid	1 080	1 122
- IT services	3 326	3 913
- materials purchased but not released for use	4 620	5 400
- other	2 012	3 058
Other assets, of which:	**25 086**	**23 827**
- payment card settlements	4 652	767
- receivables from clients and employees	6 973	2 746
- advances to suppliers and employees	1 699	1 690
- insurance receivables	8 506	9 307
- loan receivables	429	7 958
- VAT receivables	1 311	927
- other assets	1 516	432
TOTAL	**36 490**	**37 866**
including financial assets*	**23 570**	**23 395**

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

23. Derivative instruments in hedge accounting

(PLN '000)	31.12.2017	31.12.2016
Cash flow hedge instruments	367	8 023
Fair value hedge instruments	5 171	-
TOTAL	**5 538**	**8 023**

24. Amounts due to banks and financial institutions

(PLN '000)	31.12.2017	31.12.2016
Current accounts	6 950	9 997
Deposits	251 370	265 841
Loans	3 872 309	4 103 976
TOTAL	**4 130 629**	**4 379 814**

Liabilities to other banks and financial institutions – structure by type

(PLN '000)	31.12.2017	31.12.2016
Banks	**3 874 153**	**4 105 253**
Current accounts	1 494	1 277
Deposits	350	-
Loans	3 872 309	4 103 976
Financial institutions	**256 476**	**274 561**
Current accounts	5 456	8 720
Deposits	251 020	265 841
TOTAL	**4 130 629**	**4 379 814**

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

(PLN '000)	31.12.2017	31.12.2016
Up to 1 month	7 300	92 343
Over 1 month to 3 months	156 180	99 089
Over 3 months to 6 months	53 770	270 745
Over 6 months to 1 year	523 700	448 673
Over 1 year to 5 years	1 372 708	1 945 574
Over 5 years	1 999 408	1 505 836
TOTAL	**4 113 066**	**4 362 260**

25. Amounts due to customers

(PLN '000)	31.12.2017	31.12.2016
Current accounts	3 989 963	3 853 040
Fixed-term deposits	2 826 815	2 996 652
TOTAL	**6 816 778**	**6 849 692**

Liabilities to customers – structure by type

(PLN '000)	31.12.2017	31.12.2016
Individuals	**6 814 801**	**6 849 692**
Current accounts	3 987 986	3 853 040
Fixed-term deposits	2 826 815	2 996 652
Entrepreneurs	**1 977**	**-**
Current accounts	1 977	-
Fixed-term deposits	-	-
TOTAL	**6 816 778**	**6 849 692**

Liabilities by maturity (face value)

(PLN '000)	31.12.2017	31.12.2016
Up to 1 month	4 423 119	4 348 260
Over 1 month to 3 months	871 470	1 207 181
Over 3 months to 6 months	520 941	581 363
Over 6 months to 1 year	576 891	418 500
Over 1 year to 5 years	400 809	267 991
Over 5 years	-	-
TOTAL	**6 793 230**	**6 823 295**

26. Amounts due to debt securities

(PLN '000)	31.12.2017	31.12.2016
Amounts due to debt securities issuance		
- Bonds issued by the Bank	740 659	490 350
TOTAL	**740 659**	**490 350**

On 1 December 2017, as part of the Bond Issuance Program, Euro Bank S.A. issued EBK C 01122021 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 4 years, and the redemption date falls on 28 December 2021. 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 0.82 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: PLEURBK00033. The total nominal value of non-matured bonds issued by the Bank as at 31 December 2017 amounted to mPLN 740.

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 2017	**125**	**3 599**	**274**	**3 998**
Additions	-	968	174	1 142
Use	-	-	(10)	(10)
Release	(125)	(2 841)	-	(2 966)
As at 31 December 2017	**0**	**1 726**	**438**	**2 164**

(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 2017, the provision for potential claims related to the refund of the price related to the guarantee for sold loan portfolios amounted to mPLN 0.3 (mPLN 2.6 in 2016).

28. Other liabilities

(in PLN '000)	31.12.2017	31.12.2016
Other liabilities, including:	**65 164**	**61 519**
- sundry creditors	31 319	34 729
- interbank settlements	24 886	18 843
- statutory settlements	8 959	7 947
Costs to be paid, including:	**100 688**	**86 490**
- wages and salaries	15 010	14 436
- due to agents' fees	5 659	3 151
- management services	8 574	10 723
- investments	16 022	7 125
- holidays	8 001	7 088
- rents	3 840	4 334
- card fees	2 864	3 251
- IT and telecommunications services	6 546	5 974
- promotion and advertisement	7 876	12 702
- postal services	957	1 107
- consultancy	1 804	4 611
- collection services	-	560
- other costs to be paid	23 535	11 428
Estimated future returns of remuneration for insurance intermediation and income settled over time, of which:	**24 846**	**28 500**
- estimated future returns of remuneration for insurance intermediation	9 635	12 098
- income on insurance intermediation settled over time	15 211	16 402
TOTAL	**190 698**	**176 509**

29. Subordinated loan

As at 31 December 2017 the Bank had subordinated loans to the nominal value of mPLN 350. On 29 March 2017, the Bank fully repaid a subordinated loan in the amount of mPLN 80, drawn under the agreement of 8 July 2010, and on 17 November 2017 has drawn a new subordinated loan in the amount of mPLN 100 (agreement of 17 November 2017). On 21 December 2017, the Bank obtained the consent of the Polish Financial Supervision Authority to allocate this loan to own funds as a Tier 2 capital instrument.

The structure of subordinated debt as at 31 December 2017 is as follows:

- agreement of 16 August 2012 to the amount of MPLN 50 (total one-time repayment on 5 August 2019),
- agreement of 17 December 2013 to the amount of MPLN 50 (total one-time repayment on 21 December 2020),
- agreement of 15 May 2014 to the amount of MPLN 150 (total one-time repayment on 17 May 2021).
- agreement of 17 November 2017 to the amount of MPLN 100 (total one-time repayment on 17 November 2027 with the option of early repayment after 5 years).

The lender is not entitled to demand early repayment of the loan.

The loan has a floating interest rate (WIBOR plus margin):

- 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 + 1.60%).
- agreement of 17 November 2017 (WIBOR 3M + 1.44%).

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 27 September 2012,
- PFSA decision of 30 December 2013,
- PFSA decision of 27 May 2014.
- PFSA decision of 21 December 2017.

(in PLN ‘000)	31.12.2017	31.12.2016
Subordinated loan gross amount	**351 565**	**331 191**

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 2017, Societe Generale Financial Services Holding belonging to the Societe Generale Group, which held 49,869,244 shares and votes at the General Shareholders' Meeting, i.e. 99.99% 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 2017 and 31 December 2016, the Bank did not hold any own shares.

31. Supplementary capital (funds)

(PLN '000)	**31.12.2017**
As at 1 January 2017	**770 782**
Allocation of profit for previous years	113 582
TOTAL	**884 364**

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

32. Revaluation reserve

(PLN '000)	**31.12.2017**
As at 1 January 2017	(723)
Net profit (loss) on revaluation of financial assets available for sale	6 592
including deferred tax	(1 546)
Net profits (losses) on valuation of derivative instruments hedging cash flows	9 162
including deferred tax	(2 149)
TOTAL	**15 031**

The amount reclassified from other comprehensive income to the profit and loss account due to the sale of financial instruments (AFS) amounted in 2017 to kPLN 51.

(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)**

33. Operating lease

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

(PLN '000)	**2017**	**2016**
Operating lease income	81	25
Operating lease expenses	55	14

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

Maturity dates ***(in PLN '000)***	**31.12.2017**	**31.12.2016**
Up to 1 year	51	16
1 to 5 years	118	38
Over 5 years	-	-

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

(PLN '000)	**2017**	**2016**
Operating lease expenses (lease payments - rents)	4 397	5 130
Operating lease expenses (lease payments - maintenance service)	1 531	1 564

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

Maturity dates ***(in PLN '000)***	**31.12.2017**	**31.12.2016**
Lease payments		
Up to 1 year	3 161	3 691
1 to 5 years	2 511	3 181
Over 5 years	-	-
Maintenance fees		
Up to 1 year	1 192	1 264
1 to 5 years	996	1 083
Over 5 years	-	-
TOTAL	**7 860**	**9 219**

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

(PLN '000)	**2017**	**2016**
Operating lease expenses (lease payments)	54 174	56 258

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

Maturity dates ***(in PLN '000)***	**31.12.2017**	**31.12.2016**
Up to 1 year	25 054	36 245
1 to 5 years	77 611	81 262
Over 5 years	4 364	16 593
TOTAL	**107 029**	**134 100**

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), Regulation of the Minister of Development and Finance on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital at banks, as well as relevant recommendations and resolutions 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 of 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, acknowledged 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

3 lines of defence

The risk management system at the Bank is organized on three independent levels:

- the first level involves the management of risks in the operations of the Bank,
- the second level covers the following:
  - risk management by dedicated organizational units,
  - the operations of the Compliance Department,
- the third level covers the operations of the Internal Audit Department.

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 fulfil their obligations towards the Bank, arising from deterioration in their financial position.

Insolvency risk is assessed by the Bank based on application and behavioural 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.
- impairment as a result of the events indicated above on another account of the borrower, the so-called "contagion".

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);
- the original repayment period for consumer 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 scoring 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 2017**	**Gross value as at 31.12 2016**
Repaid on a timely basis	10 630 948	10 397 424
1 to 30 days	749 965	659 177
30 to 90 days	188 422	201 263
Total healthy and up to 90 days past due receivables	**11 569 335**	**11 257 864**
90 to 180 days	82 891	93 350
180 days to 1 year	117 156	102 842
1 to 2 years	182 371	166 854
2 to 3 years	144 952	148 273
3 to 5 years	190 134	166 905
Over 5 years	100 483	77 716
Total receivables over 90 days past due	**817 987**	**755 940**
Total	**12 387 322**	**12 013 804**

Non-impaired past-due receivables

Past-due period ***(in PLN '000)***	**Gross value as at 31.12 2017**	**Gross value as at 31.12 2016**
1 to 30 days	668 959	587 763
30 to 90 days	128 192	145 327
Total receivables up to 90 days past due	**797 151**	**733 090**
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	**797 151**	**733 070**

b) collaterals

(PLN '000)	31.12. 2017	31.12. 2016
Fair value of credit collaterals	9 524 944	8 729 993

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, analysing 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 instalments for a period of max. 12 months,
- changing the instalment 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 repaid 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

(PLN '000)	31.12.2017	31.12.2016
Gross value		
Non-impaired receivables	39 232	35 610
Impaired receivables	271 347	247 281
Gross total	**310 579**	**282 891**
Impairments	**(113 257)**	**(85 491)**
impairment loss for non-impaired receivables	(151)	(319)
impairment loss for impaired receivables	(113 106)	(85 172)
Net receivables	**197 322**	**197 400**

Impact on interest income - restructured receivables

(PLN '000)	2017	2016
Non-impaired loans	4 053	2 706
Impaired loans	14 966	14 807
TOTAL	**19 019**	**17 513**

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

Region	31.12.2017 (%)	31.12.2016 (%)
Dolnośląskie	9	9
Kujawsko-Pomorskie	6	6
Lubelskie	3	3
Lubuskie	2	2
Łódzkie	7	7
Małopolskie	6	7
Mazowieckie	16	17
Opolskie	2	3
Podkarpackie	3	2
Podlaskie	2	2
Pomorskie	8	8
Śląskie	16	15
Świętokrzyskie	2	2
Warmińsko-Mazurskie	4	4
Wielkopolskie	9	8
Zachodniopomorskie	5	5
TOTAL	**100**	**100**

Change in impaired receivables in 2017

Impaired receivables gross value (in PLN '000) as at 1 January 2017	**247 281**
Additions due to change of risk groups	94 090
Disposals due to reclassification to the non-impaired group	(42 547)
Disposal due to exclusion from the portfolio of settlements after termination	
Disposals:	(27 477)
- due to portfolio sale	(2 864)
- remission and transfer to off-balance sheet	(3 384)
- due to repayments	(21 229)
Impaired receivables gross value (in PLN '000) as at 31 December 2017	**271 347**

Change in impaired receivables in 2016

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**

d) max. credit risk exposure

Statement of financial position items (PLN '000)	**31.12.2017**	**31.12.2016**
Funds on the account in Central Bank	103 297	27 237
Amounts due from banks	99 025	132 793
Amounts due from customers	11 731 301	11 397 855
Financial assets available for sale – debt securities	1 484 659	1 748 931
issued by the Central Bank	45 818	210 880
treasury	1 351 395	1 453 291
other	87 446	84 760
Other assets	23 570	23 395
TOTAL	**13 441 852**	**13 330 211**

Off-balance sheet items (PLN '000)	**31.12.2017**	**31.12.2016**
Granted financial liabilities	284 259	331 094
TOTAL	**284 259**	**331 094**

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-fulfilment 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.

Loan portfolio

The Bank applies a limit for a single exposure / single borrower at 1/20 limit of a large exposure defined in CRR. The maximum credit exposure amounts to 0.5% of the Bank's equity.
Portfolio concentration limits 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 2017, the equity, which serves as the basis for defining large exposure limits, in accordance with Article 395 of CRR amounted to kPLN 1 645 114 (as at 31 December 2016: kPLN 1 469 544). No concentration limits were exceeded as at 31 December 2017 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	31.12.2017 (%)	31.12.2016 (%)
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	15
Świętokrzyskie	2	2
Warmińsko-Mazurskie	3	3
Wielkopolskie	9	9
Zachodniopomorskie	6	6
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 in the market. The Bank does not have a trading portfolio and the interest rate risk is fully generated by balance sheet and off-balance sheet items sensitive to changes in interest rates classified in the banking book.

The objective of interest rate risk management at the Bank is to maintain the volatility of the net interest income sensitive to changes in interest rates (NII – *net interest income*) and the economic value of capital (EVC) within the acceptable levels that do not pose a threat to the Bank's security by optimizing the balance sheet structure and off-balance sheet items of the Bank, as well as optimizing interest margins. The interest rate risk management process at the Bank is supported by hedge accounting mechanisms.

Interest bearing items split by type of the rate as at 31 December 2017 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	42%	45%	2%	**89%**
Financial sector	8%	3%	0%	**11%**
Interest bearing liabilities	**24%**	**43%**	**33%**	**100%**
Non-financial sector	24%	3%	33%	**60%**
Financial sector	0%	40%	0%	**40%**

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%**

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

Gap analysis of assets/liabilities and off-balance sheet liabilities by interest rate revaluation as at 31 December 2017 (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	103 000	-	-	-	-	-	-	60 237	**163 237**
Amounts due from banks	28 040	24	-	-	20 000	50 000	-	961	**99 025**
Amounts due from customers	1 034 113	5 974 361	697 314	1 092 073	1 441 927	1 573 871	338 127	(420 485)	**11 731 301**
Financial assets held as investment	275 820	-	260 000	350 000	-	500 000	90 000	18 208	**1 494 028**
Other assets	-	-	-	-	-	-	-	310 230	**310 230**
TOTAL ASSETS	**1 440 973**	**5 974 385**	**957 314**	**1 442 073**	**1 461 927**	**2 123 871**	**428 127**	**(30 849)**	**13 797 821**

**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	62 452	90 000	800 000	-	-	-	-	-	**952 452**

**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	951 036	2 831 260	53 770	81 012	48 670	47 319	100 000	17 562	**4 130 629**
Amounts due to bond issuance	-	-	740 000	-	-	-	-	659	**740 659**
Amounts due to customers	1 261 142	3 116 641	1 018 626	532 266	307 283	388 042	169 229	23 549	**6 816 778**
Other liabilities	-	-	-	-	-	-	-	192 862	**192 862**
Subordinated debt	-	350 000	-	-	-	-	-	1 565	**351 565**
Equity	-	-	-	-	-	-	-	1 565 328	**1 565 328**
TOTAL EQUITY AND LIABILITIES	**2 212 178**	**6 297 901**	**1 812 396**	**613 278**	**355 953**	**435 361**	**269 229**	**1 801 525**	**13 797 821**

**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	12 328	-	-	200 000	150 000	500 000	90 000	-	**952 328**

**NIB – non-interest bearing items*

Duration gaps									
PLN gap	(276 533)	(634 301)	(65 601)	620 285	944 885	1 178 904	65 185	(1 835 585)	(2 761)
CHF gap	(441 076)	400 785	10 520	8 510	11 089	9 606	3 712	(3 084)	62
EUR gap	7 416	-	-	-	-	-	-	(7 461)	(45)
USD gap	(10 257)	-	-	-	-	-	-	10 230	(27)
GBP gap	(662)	-	-	-	-	-	-	802	140
Other gaps	31	-	-	-	-	-	-	-	31
TOTAL	**(721 081)**	**(233 516)**	**(55 081)**	**628 795**	**955 974**	**1 188 510**	**68 897**	**(1 835 098)**	**(2 600)**

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**

Z komentarzem [d2]: we can observe a shift between liabilities to banks and to customers by mPLN 1.977 - that is entrepreneur accounts. Only these entrepreneurs are not financial institutions, so it is not entirely in line with the item description - why did you transfer that amount?

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 net interest income and the economic sensitivity of equity to a leap change in the market interest rate curve by 100 bps. The calculation of the above measures is based on the assumption that the structure of assets, liabilities and off-balance sheet items subject to revaluation, included in the books as at the reporting date, will not change and the Bank will not take any action to change the related interest rate risk exposures. The Bank limits the sensitivity of net interest income in the horizon of 12 months to the increase in interest rates by 100 bps.

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 2017, the above measures were as follows:

GAP IN TOTAL ASSETS (%)		
<=1Y	**(1Y – 5Y>***	**>5Y**
-2,6%	3,8%	0,5%

**Average annual gap*

For comparison purposes, the above items as at 31 December 2016 were as follows:

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

**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 unfavourable changes in the exchange rates. This risk is generated at the Bank due to the mismatch of assets and liabilities in currencies other than PLN, resulting mainly from:

- servicing the portfolio of mortgage loans indexed in CHF, fully financed by CHF deposits from the main shareholder (the portfolio is gradually extinguished after the discontinuation of loan sales in 2009),

- foreign currency services for retail customer, involving foreign currency accounts and cash and non-cash foreign currency settlements (in the Bank's offer since November 2017)
- foreign currency liabilities and receivables resulting from the Bank's own operations.

The Bank's FX position is managed on the basis of the intra-day limits system adopted by the Bank and the end-of--day limits for items concerning:

- four supported main currencies: EUR, USD, CHF, GBP,
- four technical and settlement currencies: SEK, CZK, NOK, DKK.

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. In addition, the assessment of the exposure to foreign currency risk is supported by using the Value at Risk (VaR).

Statement of FX financial position as at 31 December 2017

			CURRENCY		
(in '000)	**CHF**	**EUR**	**USD**	**Other currencies***	**Currency conversion in PLN**
ASSETS					
Amounts due from banks	4 011	2 709	45	- 132	26 086
Amounts due from customers	301 264	-	-	-	1 074 669
Other assets		988	2 950	171	15 190
TOTAL ASSETS	**305 275**	**3 697**	**2 995**	**303**	**1 115 945**
LIABILITIES					
Amounts due to banks and financial institutions	305 044	-	-	-	1 088 153
Other liabilities	214	2 661	96	83	12 582
Total liabilities	**305 258**	**2 661**	**96**	**83**	**1 100 735**

			CURRENCY		
(in '000)	**CHF**	**EUR**	**USD**	**Other currencies***	**Currency conversion in PLN**
OFF-BALANCE SHEET					
Current currency operations	-	400	-	-	1 668
Derivatives	-	-	2 900	120	10 660
Other liabilities	-	647	7	-	2 723
TOTAL OFF-BALANCE SHEET	**-**	**1 047**	**2 907**	**120**	**15 051**

Values in foreign currencies have been converted into PLN according to Table no. 251/A/NBP/2017 as at 29 December 2017.
**The "Other currenies" item includes the following currencies: GBP, NOK,SEK, DKK6*

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.

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

FX position as at 31 December 2017

Foreign-exchange position		Total foreign-exchange position	Own funds	Total foreign-exchange position to equity ratio
thousand currency units		thousand PLN	thousand PLN	%
EUR	(11)	235	1 645 114	0,01%
CHF	17			
USD	(8)			
GBP	30			
DKK	11			
NOK	4			
SEK	55			

FX position as at 31 December 2016

Foreign-exchange position		Total foreign-exchange position	Own funds	Total foreign-exchange position to equity ratio
thousand currency units		thousand PLN	thousand PLN	%
EUR	(11)	(31)	1 469 544	0,00%
CHF	0			
USD	4			

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 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. In addition, the Bank raises funds from the interbank market and as part of bilateral cooperation with business partners. Liquidity reserves maintained by the Bank on an ongoing basis enable it to secure funds necessary to fulfil 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.

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, money bills of the National Bank of Poland, bonds of the European Investment Bank and short-term inter-bank deposits. The limits related to permitted investments are reviewed on a quarterly basis.

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 2017 and 31 December 2016.

Liquidity ratios		31.12.2017	31.12.2016
M2	Short-term liquidity ratio	2,94	3,27
M4	Coverage of illiquid assets and assets of limited liquidity with own funds and stable external funds	1,06	1,09
LCR	Net outflows coverage ratio	241%	231%
NSFR	Net stable funding ratio	123%	122%

Gap analysis of assets/liabilities and off-balance sheet liabilities by realigned maturity/due date as at 31 December 2017 (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	(124 415)	30 453	27 873	46 538	51 750	75 745	55 293	**163 237**
Amounts due from banks	28 048	24	-	966	19 996	49 991	-	**99 025**
Amounts due from customers	245 909	356 565	523 289	1 024 493	1 814 419	3 176 201	4 590 425	**11 731 301**
Financial assets held as investment	1 484 659	-	-	-	-	-	9 369	**1 494 028**
Other assets	38 462	24 125	35 226	70 604	57 876	80 720	3 217	**310 230**
TOTAL ASSETS	**1 672 663**	**411 167**	**586 388**	**1 142 601**	**1 944 041**	**3 382 657**	**4 658 304**	**13 797 821**

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*	(39 840)	689	2 033	4 375	7 842	13 397	11 504	**(0)**
Other	(2 726)	-	-	-	-	-	-	**(2 726)**

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	45 475	126 409	57 365	527 413	569 742	804 816	1 999 409	**4 130 629**
Amounts due to bond issuance	-	-	1 458	239 888	249 788	249 525	-	**740 659**
Amounts due to customers	384 724	683 622	604 637	1 017 837	1 132 175	1 715 274	1 278 509	**6 816 778**
Other liabilities	71 360	38 026	56 331	14 848	5 942	5 310	1 045	**192 862**
Subordinated debt	-	1 565	-	-	50 000	200 000	100 000	**351 565**
Equity	15 031	-	20 567	-	-	-	1 529 730	**1 565 328**
TOTAL EQUITY AND LIABILITIES	**516 590**	**849 622**	**740 358**	**1 799 986**	**2 007 647**	**2 974 925**	**4 908 693**	**13 797 821**

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	1 113 507	675 741	523 804	(129 206)	(184 970)	236 159	(2 726)	-
Liquidity ratio	3,16	1,49	-	-	-	-	-	-

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	-	-	-	-	-	-

Financial assets by maturity date based on contractual non-discounted payments with future interest payments as at 31 December 2017 (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	4 973	39 385	138 605	77 284	566 590	643 855	986 775	2 125 202	**4 582 669**
Amounts due to bond issuance	0	0	0	10 554	250 650	264 100	263 168	0	**788 472**
Amounts due to customers	3 991 940	452 607	860 488	523 287	596 010	238 990	187 511	0	**6 850 833**
Subordinated debt	0	0	3 377	3 243	6 735	62 620	219 447	115 859	**411 281**
TOTAL EQUITY AND LIABILITIES	**3 996 913**	**491 992**	**1 002 470**	**614 368**	**1 419 985**	**1 209 565**	**1 656 901**	**2 241 061**	**12 633 255**

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**

Receivables and liabilities arising from derivatives designated for hedge accounting, together with the reconciliation to their carrying values as at 31 December 2017

(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	-	417	1 026	7 479	9 057	16 604	29 199	13 582	**77 364**
Outflows	-	-	-	-9 000	-9 826	-15 186	-27 188	-9 900	**-71 100**
NET	**-**	**417**	**1 026**	**-1 521**	**-769**	**1 418**	**2 011**	**3 682**	**6 264**
Discounted using the zero-coupon curve	-	416	1 024	(1 515)	(762)	1 353	1 911	3 112	**5 539**

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**

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.
Operational risk management at Euro Bank S.A. covers, among others, the following:

- identification, measurement or estimation, assessment, control (mitigation), monitoring and reporting of operational risk in individual areas of the Bank's activity,
- operational risk control mechanisms (limits),
- implementation of remedial plans to minimize 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, among others, the following: 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 the management of this risk 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 the above analyses are presented on a quarterly basis at the meetings of the Internal Control Coordination Committee, as well as submitted to the Management Board and the Supervisory Board Audit Committee (quarterly) and to the Supervisory Board (annually) - in accordance with the documents defining the reporting area. The Bank also provides information on operational risk to external authorities in accordance with the applicable legal requirements.

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

The operational risk at Euro Bank S.A. at the first level is managed by all operational units of the Bank in terms of relevant risk categories and areas.
The operational risk management at the second level takes place within the Operational Risk Management and Internal Control Department.
Within the scope of individual operational risk categories, the Department cooperates with specialist units of the Bank as well as with the Internal Control Coordination Committee.
The purpose of the Committee is to monitor the functioning of the operational risk management system and the internal control system at the Bank. The main tasks of the Committee are: accepting and analysing information, recommending actions and making decisions regarding:

- operational risk,
- internal control,
- security,

- legal risk,
- compliance risk,
- AML risk.

The agenda, the frequency of meetings and the composition of the Committee are governed by the Rules of the Internal Control Coordination Committee approved by the Management Board of Euro Bank S.A.

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, while 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.

Additionally, the Polish Financial Supervision Authority imposed on the Bank the obligation to maintain capital requirements to cover the risk arising from the portfolio of foreign currency mortgage loans for households. The add-on value applicable in 2017 was at 0.36% in relation to the Tier 1 ratio and 0.48% in relation to the total capital ratio. In November 2017, PFSA updated the values of these ratios to the level of 0.4% of the total risk exposure in relation to Tier1 capital ratio and to 0.53% 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 2017, 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 Tier 1 capital, amounting to 1.25% of the total risk exposure. In 2018, this ratio will increase to 1.875%, and in 2019 it will reach the target level of 2.5%.

Considering the above, the minimum required level of capital ratios for the Bank as of 31 December 2017 is:

- 10.65% for the Tier 1 capital ratio,
- 13.78% 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)	31.12.2017	31.12.2016
Own funds	**1 645 114**	**1 469 544**
Tier1 capital	**1 398 089**	**1 268 667**
Share capital	563 096	563 096
Reserve capital	884 364	770 782
Revaluation capital - valuation of securities	11 839	(1 800)
Adjustment of funds by deferred tax asset	(8 403)	(16 405)
Adjustment of funds by intangible assets	(52 807)	(47 006)
Tier 2 Capital	**247 025**	**200 877**
Subordinated loan	247 025	200 877
Balance sheet risk-weighted assets	**9 063 004**	**8 407 365**
20% risk rate	5 613	3 728
35% risk rate	1 208 949	1 108 307
50% risk rate	35 477	57 515
75% risk rate	5 092 905	4 929 234
100% risk rate	561 595	1 839 093
150% risk rate	1 806 842	148 727
250% risk rate	351 623	320 761
Off-balance sheet risk-weighted liabilities	**96 068**	**118 746**
20% risk rate	49	18
50% risk rate	12 350	16 550
75% risk rate	83 669	102 178
100% risk rate		
Total risk weighted balance sheet assets and off-balance sheet liabilities	**9 159 072**	**8 526 111**
Risk exposure to credit risk	9 159 072	8 526 111
Risk exposure to operational risk	1 090 134	1 110 653
Risk exposure to currency risk*	-	-
CVA risk exposure	24 111	36 252
Total risk exposure amount	**10 273 317**	**9 673 016**
Tier 1	**13,61%**	**13,12%**
Total capital ratio	**16,01%**	**15,19%**

The total capital adequacy ratio of the Bank calculated as at 31 December 2017 was at 16.01%, and the Tier 1 capital ratio at 13.61%.
As at 31 December 2017, 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.

At the same time, in December 2017, the Polish Financial Supervision Authority issued new recommendations for Polish banks regarding the required minimum capital ratios.
Minimum capital ratios as of 1 January 2018 will be at:

a. 6% + combined buffer requirement + add-on (additional individual requirement due to foreign currency mortgage loans) in relation to Tier 1 ratio,

b. 8% + combined buffer requirement + add-on in relation to the total capital ratio.

The combined buffer requirement includes the need to maintain additional capital for:

a. conservation buffer at 1.875 % in 2018 and at 2.5% as of 2019,

b. systemic risk buffer at 3%,

c. countercyclical buffer at 0%,

d. a buffer of other systemically important institutions - the buffer applies to selected institutions recognized as particularly important for the local financial market; the buffer does not apply to Euro Bank S.A.

The above means the need for the Bank to maintain capital ratios at 11.28% in relation to Tier 1 capital ratio and 13.41% in relation to the total capital ratio as of 1 January 2018.

OTHER ADDITIONAL NOTES

42. Cash

The cash flow statement includes the following items:

(PLN '000)	**31.12.2017**	**31.12.2016**
Cash and deposits in the Central Bank	163 237	103 286
Current accounts*	26 425	17 204
TOTAL	189 662	**120 490**

**without the Company Social Benefits Fund*

The impact of changes in foreign exchange rates during the financial year on cash was negative and amounted to kPLN 1,462.

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

There were no significant events after the balance sheet date.

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

As at 31 December 2017, Societe Generale Financial Services with its registered office in Paris held over 99.99% of the Bank's shares. In 2017, the shares held by minority shareholders were bought back. As at 31 December 2016, the main shareholder of the Bank was Societe Generale Consumer Finance SA (99.97% of the Bank's shares). In September 2017, Societe Generale Consumer Finance SA was acquired by Societe Generale Financial Services Holding.

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 2017 and 31 December 2016.

(in PLN '000)	31.12.2017	31.12.2016
Societe Generale Consumer Finance (parent company)		
Liabilities	**-**	**129**
Liabilities for invoices	-	129
Siège SG - Comptabilité Fournisseurs (entity belonging to the Group)		
Liabilities	**8 574**	**10 723**
Liabilities for invoices	8 574	10 723
Societe Generale New York (entity belonging to the group)		
Assets	**32**	**-**
Current accounts	32	-
Societe Generale Paris (entity belonging to the group)		
Assets	**81 596**	**122 456**
Current accounts	4 706	-
Granted deposits	70 966	114 166
IBNR write-off	(12)	(20)
Invoice receivables	398	287
CF derivative hedge instruments – valuation	5 538	8 023
Liabilities and capitals	**4 184 121**	**4 435 166**
Loans received	4 184 121	4 435 166
Derivatives (face value)	**1 880 000**	**1 880 000**
CF sold term derivative instruments	940 000	940 000
CF purchased term derivative instruments	940 000	940 000
Guarantees	**5 039**	**6 050**
Guarantees received	5 039	6 050
Societe Generale Warsaw (entity belonging to the group)		
Assets	**18 458**	**12 910**
Current accounts	18 458	12 821
Invoice receivables	-	89
Liabilities	**374**	**10**

Current accounts	24	10
Deposits accepted	350	-
SOGECAP (entity belonging to the group)		
Assets	**6 774**	**70**
Invoice receivables	6 774	70
Liabilities	**244 310**	**245 953**
Liabilities for invoices	1 656	2 285
Deposits	242 654	243 668
SOGESSUR (entity belonging to the group)		
Assets	**825**	**411**
Invoice receivables	825	411
Liabilities	**8 366**	**11 312**
Deposits	8 366	11 312
Societe Generale Equipment Leasing (entity belonging to the group)		
Assets	**-**	**46**
Invoice receivables	-	46
ALD AUTOMOTIVE Warsaw (entity belonging to the group)		
Assets	**-**	**18**
Invoice receivables	-	18

The following table presents revenues and expenses on transactions with related parties in the periods from 1 January 2017 to 31 December 2017 and from 1 January 2016 to 31 December 2016.

(in PLN '000)	**2017**	**2016**
Societe Generale Consumer Finance (entity belonging to the group)		
Costs	**-**	**(129)**
Management services costs	-	(129)
Siège SG - Comptabilité Fournisseurs (entity belonging to the Group)		
Costs	**(10 342)**	**(9 761)**
Management services costs	(10 342)	(9 761)
Societe Generale Paris (entity belonging to the group)		
Revenues	**5 663**	**7 145**
Interest income	5 663	7 145
Costs	**(98 902)**	**(103 579)**
Interest expenses	(97 907)	(100 514)
Interest expense on derivatives	(995)	(3 065)
Societe Generale Warsaw (entity belonging to the group)		
Revenues	**10**	**91**
Interest income	-	6
Invoice income	10	85
Costs	**(535)**	**(300)**
Interest expenses	(431)	(213)
Commission expense	(104)	(87)
SOGECAP (entity belonging to the group)		
Revenues	**94 008**	**126 895**

Insurance income	93 372	126 350
Revenue from services	636	545
Costs	**(4 604)**	**(4 520)**
Interest expenses	(4 604)	(4 520)
SOGESSUR (entity belonging to the group)		
Revenues	**6 618**	**2 357**
Insurance income	6 618	2 357
Costs	**(168)**	**(208)**
Interest expenses	(168)	(208)
ALD AUTOMOTIVE Warsaw (entity belonging to the group)		
Revenues	**-**	**19**
Revenue due to lease services fees	-	19
Costs	**(8 715)**	**(9 792)**
Costs due to lease services fees	(4)	-
Costs of car maintenance services and lease fees,	(8 711)	(6 694)
Other costs	-	(3 098)
Societe Generale Equipment Leasing (entity belonging to the group)		
Revenues	**-**	**38**
Revenue due to lease services fees	-	38
Costs	**(14)**	**-**
Costs due to lease services fees	(14)	-

As at 31 December 2017, the Bank's exposure to employees due to loans and advances amounted to kPLN 78,948, and as at 31 December 2016 - kPLN 94,185.

In 2017 and 2016, 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 at market terms, 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 statements 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 measurement methods. 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 2017

(PLN '000)	*Hierarchy level*	*Valuation method*	*Carrying amount as at 31 December 2017*	*Fair value as at 31 December 2017*

Amounts due from banks	2	discounted cash flows	99 025	103 846
Individuals	3	discounted cash flows	11 731 301	11 270 626
other credits and loans	*3*	discounted cash flows	5 346 710	5 321 973
mortgage loans	*3*	discounted cash flows	6 289 551	5 859 366
credit cards	*3*	discounted cash flows	95 040	89 286
TOTAL			**11 830 326**	**11 374 471**

(PLN '000)	***Hierarchy level***	***Valuation method***	***Carrying amount as at 31 December 2017***	***Fair value as at 31 December 2017***
Amounts due to banks and financial institutions	2	discounted cash flows	4 130 629	4 137 890
Amounts due to bond issuance	2	discounted cash flows	740 659	741 703
Amounts due to customers	2	discounted cash flows	6 816 778	6 808 403
TOTAL			**11 688 066**	**11 687 996**

Year 2016

(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

(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**

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 analyse 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 2017

In 2017, there were no transfers between level 1 and 2.

(in PLN '000)	Level 1 31.12.2017	Level 2 31.12.2017	Level 3 31.12.2017	TOTAL 31.12.2017
Available-for-sale financial assets	***1 438 841***	***45 818***	***9 369****	***1 494 028***
Securities	1 438 841	45 818	9 369	1 494 028
TOTAL	**1 *438 841***	**45 818**	**9 369**	**1 494 028**

***Visa Inc. shares*.**

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**

**Visa Inc. shares*

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 2017

(in PLN '000)	Level 1 31.12.2017	Level 2 31.12.2017	Level 3 31.12.2017	TOTAL 31.12.2017
Financial assets				-
Amounts due from banks	-	103 846	-	103 846
Individuals	-	-	11 270 626	11 270 626
TOTAL		103 846	11270 626	**11 374 472**
Financial liabilities				
Amounts due to banks and financial institutions	-	4 137 890	-	4 137 890
Amounts due to bond issuance	-	741 703	-	741 703
Amounts due to customers	-	6 808 403	-	6 808 403
TOTAL	**-**	**11 687 996**	**-**	**11 687 996**

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**

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

Remuneration of the Management Board

(in PLN '000)	2017	2016
Remuneration in the financial period	**8 212**	8 752
Short-term benefits (remuneration and payroll charges)	7 602	7 907
Provision for unused holidays	311	352
Other benefits	299	493

Remuneration of the Supervisory Board

(in PLN '000)	2017	2016
Remuneration in the financial period	**474**	**490**
Short-term benefits	474	490
Other benefits	-	-

The Bank's remuneration policy, updated by the Bank's Management Board and adopted by the Supervisory Board on 13 April 2017, is compliant with the framework defined in CRD IV.
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 2017, the variable remuneration component has been recognized by the Bank in remuneration cost with payroll charges in the amount of kPLN 2,873.

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.

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

In accordance with the resolution of the General Meeting of Shareholders of 21 June 2017, the Bank paid out a dividend at 20% of the net profit for 2016 in the amount of mPLN 28.4. The remaining portion of the net profit for 2016 was allocated 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 2017.

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 2017:

- securities used as collateral of the guarantee fund maintained by the Bank Guarantee Fund with a carrying amount of kPLN 41,856,
- deposits used as collateral of rental agreements in the amount of kPLN 169.

Pursuant to Resolution 64/2016 of the Board of the Bank Guarantee Fund of 10 November 2016 on determination of the amount of the guaranteed deposit protection fund for 2017, 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 2017 amounted to kPLN 40,483.

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

As at 31 December 2017 and 31 December 2016, 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 2017, the Bank had off-balance financial liabilities totalling kPLN 284,259, including liabilities due to extended mortgage loans in the amount of kPLN 82,344, due to extended credit card loans in the amount kPLN 100,002 and due to granted overdrafts in the amount of kPLN 101,913.

As at 31 December 2016, the Bank had off-balance financial liabilities totalling 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.

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 2017, the Bank had an IRS in the nominal value of mPLN 940, and forward transactions (NDF) in nominal value of mUSD 2.9 (mPLN 10.1), and kGBP 120 (kPLN 564). 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).

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

	31.12.2017		31.12.2016	
Type of contract	**Assets**	**Liabilities**	**Assets**	**Liabilities**
IRS	5 538	-	8 023	-
Forward	122	-	29	-
Total	**5 660**	**-**	**8 052**	**-**

i) Received liabilities

As at 31 December 2017, the Bank had off-balance sheet liabilities received in the amount of mPLN 1,314 and mCHF 31 (mPLN 111) for granted and unused credit lines, and mUSD 1.4 (mPLN 5) for received guarantees concerning Mastercard settlement collateral.

As at 31 December 2016, the Bank had off-balance sheet liabilities in the amount of mPLN 1,664 and mCHF 11 (mPLN 45) due to granted and unused credit lines, and mUSD 1.4 (mPLN 6) due to guarantees for Mastercard settlements.

49. Hedge accounting principles adopted by the Bank

In the financial statements for the year 2017 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 2017 (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**	**200 000**	**150 000**	**500 000**	**90 000**	**940 000**

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**

Fair values of hedging derivatives as at 31 December 2017 (in PLN '000)

in PLN '000	ASSETS	LIABILITIES
Fair value hedge accounting		
interest rate swaps (IRS)	5 171	–
Cash flow hedge accounting		
interest rate swaps (IRS)	367	–
Total	**5 538**	**–**

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 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 2017, 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 2017

(PLN '000)	INTEREST INCOME	INTEREST EXPENSE	NET
Up to 1 year	11 786	(12 350)	(564)
1 to 2 years	13 935	(12 338)	1 597
2 to 3 years	16 023	(12 371)	3 652
3 to 4 years	7 725	(5 797)	1 928
over 5 years	15 579	(11 500)	4 079

	CASH FLOWS		
(PLN '000)	INFLOWS	OUTFLOWS	NET
Up to 1 year	11 576	(12 364)	(788)
1 to 2 years	13 368	(12 343)	1 025
2 to 3 years	15 594	(12 411)	3 183
3 to 4 years	10 530	(12 303)	(1 773)
over 5 years	16 658	(12 375)	4 283

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)

	31.12.2017	31.12.2016
Profit/loss due to fluctuations in the fair value of the hedging instrument	(1 780)	11 706
Profit/loss due to fluctuations in the fair value of the hedged item related to the hedged risk	1 886	(11 911)
Fair value hedge result	**106**	**(205)**
Interest income on hedging derivatives	**(856)**	**(761)**

Macro cash flow hedges

The hedged risk is the change in cash flows of financial liabilities due to changes in interest rates. The hedged item is the portfolio of liabilities for savings accounts with a variable interest rate, and thus exposed to the risk of changes in future cash flows resulting from the change in the benchmark market WIBOR-type interest rate. 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 286 (including deferred tax) relating to the effective portion of the hedging relationship in cash flow hedge accounting (kPLN 988 as at 31 December 2016). 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 2017 amounted to kPLN 33 (kPLN 300 in 2016).

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 2017, 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 2017 and 2016 the Bank recognized in the statement of comprehensive income and revaluation reserve.

(PLN '000)	**31.12.2017**	**31.12.2016**
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)	232	800
Ineffective portion of the revaluation to the fair value of hedging derivative due to hedged risk, recognized in the profit/loss on financial transactions	33	-
Net interest on hedging derivatives in macro cash flow hedges recognized in the interest margin	(140)	(2 371)
Period when the hedged cash flows are expected, including interest (in PLN '000):	2 years	3 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 2017

(PLN '000)	**INTEREST INCOME**	**INTEREST EXPENSE**	**NET**
Up to 1 year	5 898	(5 907)	(9)
1 to 2 years	2 769	(2 406)	363
2 to 3 years	-	-	-
3 to 4 years	-	-	-
over 5 years	-	-	-

	CASH FLOWS		
(PLN '000)	**INFLOWS**	**OUTFLOWS**	**NET**
Up to 1 year	6 404	(6 463)	(59)
1 to 2 years	3 236	(2 843)	393
2 to 3 years	-	-	-
3 to 4 years	-	-	-
over 5 years	-	-	-

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	-	-	-

The table below presents changes in revaluation reserve due to macro cash flow hedges in 2017 and 2016.

Change in the revaluation reserve in period *(in PLN '000)*	2017	2016
Opening balance	800	(1 981)
Movements of active hedges	(842)	1 062
- change in clean value	(702)	3 433
- interest	(140)	(2 371)
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)	140	2 371
Deferred tax	133	(652)
Closing balance	**231**	**800**
Total change in period	**(569)**	**2 781**

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 2017 and from 31 January to 31 December 2016.

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

(PLN '000)	2017	2016
Remuneration for mandatory audit of the annual financial statements	450	352

Total	**450**	**352**

The increased level of remuneration for auditing the annual financial statements in 2017 was significantly influenced by the extended scope of the audit, resulting from the change of the audit company and the coverage of issues related to the implementation of IFRS 9.

52. Income on dividends

In the period from 1 January to 31 December 2017, the Bank earned income from dividends on Visa Inc. shares in the amount of kPLN 77. 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.

53. Additional disclosures

The Bank's revenue, referred to in Article 111a of the Banking Act, in 2017 amounted to mPLN 765. In 2016, the Bank's revenue amounted to MPLN 814.

(PLN '000)	*2017*	*2016**
Net interest income	662 170	640 303
Net commission income	50 585	55 067
Result on financial operations	(1 528)	48 297
Foreign exchange result	4 088	3 147
Gain/loss on adjustments of the fair value in hedge accounting	1 886	(11 911)
Other operating income	47 394	79 172
Bank's revenue	**764 595**	**814 075**

**transformed data*

The return on assets, defined as the ratio of net profit and total assets, in 2017 was at 0.75% The return on assets in 2016 was at 1.0%.

54. Capital expenditure

During the period from 1 January to 31 December 2017 the Bank incurred kPLN 29,530 in capital expenditure, of which kPLN 13,080 for fixed assets and kPLN 16,450 for intangible assets. Capital expenditure committed by the Bank for 2017 amount to kPLN 16,392 and apply particularly to the IT area.
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.

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 2017 and from 1 January to 31 December 2016, 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 2017 amounted to 2902 employees vs. 2973 employees in 2016.
The number of employees as of the end of 2017 was 2884 employees and 2860.3 FTEs vs. 2943 employees and 2918.4 FTEs in 2016.

57. Provisions for future liabilities to employees

Provisions for future liabilities to employees, by type:

(PLN '000)	**31.12.2017**	**31.12.2016**
- for retirement severance	438	274
- for unused holidays (short-term benefits)	8 001	7 088

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 CRDIV and the requirements of Regulation of the Minister of Development and Finance on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital at banks of 6 March 2017, the Bank introduced the rules for granting and paying variable remuneration to 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, the value of which depends on the adjusted change in net assets of the Bank.