EURO BANK SA

Financial Statements

for the year ended on 31 December 2018

eurobank

EURO BANK SA

Financial Statements for the year ended on 31 December 2018

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 2018, in line with the International Financial Reporting Standards in the form adopted by the European Union (IFRS). The presented financial statements are annual financial statements.

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

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

The financial statements for the year ended on 31 December 2018 was approved by the Management Board on 11 March 2019.

These financial statements include 117 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, 11 March 2019

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STATEMENT OF COMPREHENSIVE INCOME

for the year ended on 31 December 2018

(PLN '000)	Note	2018	2017 (transformed data)*	2017**
Going concern business				
Interest income	3	873 864	866 295	866 295
Interest expense	4	(204 011)	(204 125)	(204 125)
Net interest income		**669 853**	**662 170**	**662 170**
Commission income	5	86 953	92 394	92 394
Fee and commission expense	6	(42 219)	(41 809)	(41 809)
Net commission income		**44 734**	**50 585**	**50 585**
Result on modification	**7**	**(3 251)**	**-**	**-**
Net income on financial operations	8	(9 711)	(1 528)	(1 528)
Foreign exchange result	9	5 283	4 088	4 088
Fair value adjusment result in hedge accounting		**9 942**	**1 886**	**1 886**
Result on financial assets and liabilities at fair value through profit or loss		**4 581**	**-**	**-**
Net banking income		**721 431**	**717 201**	**717 201**
Other operating income	10	48 988	47 394	47 394
Other operating expense	11	(11 435)	(18 967)	(18 967)
Operating expenditure	12	(435 091)	(450 622)	(448 880)
Depreciation	13	(38 277)	(36 254)	(36 254)
Result on allowances for expected credit losses	14	(136 309)	(121 904)	(121 904)
Gross result on operations		**149 307**	**136 848**	**138 590**
Gross profit (loss)		**149 307**	**136 848**	**138 590**
Income tax	15	**(46 224)**	**(35 677)**	**(35 753)**
Net profit (loss)		**103 083**	**101 171**	**102 837**
Other comprehensive income – items that may be reclassified to the profit and loss account		**(5 729)**	**15 754**	**15 754**
Net profit (loss) on revaluation of financial assets available for sale		-	6 592	6 592
- including deferred tax		-	(1 546)	(1 546)
Profit (loss) on the measurement of financial assets measured at fair value through other comprehensive income		(1 890)	-	-
- including deferred tax		498	-	-
Net profit (loss) on measurement of derivatives hedging cash flows and fair value (resulting from contracts not settled at the reporting date):		(3 839)	9 162	9 162
- including deferred tax		901	(2 149)	(2 149)
Items that cannot be reclassified to the profit and loss account		**-**	**-**	**-**
Total other comprehensive income		**(5 729)**	**15 754**	**15 754**
Total net comprehensive income		**97 354**	**116 925**	**118 591**

** Information on the scope of transformations as at 31 December 2017 is included in note 2.4.*

*** audited data*

Notes presented on pages 11-117 constitute an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

Statement of financial position as at 31 December 2018

(PLN '000)	**Note**	**31.12.2018**	**31.12.2017***	**31.12.2017****	**01.01.2017 (transformed data)**
ASSETS					
Cash and balances with Central Bank	16	247 152	163 237	163 237	103 286
Amounts due from banks	17	129 614	99 025	99 025	132 793
- Measured at amortized cost		*129 614*	*99 025*	*99 025*	*132 793*
Customer loans	18	12 195 894	11 731 301	11 731 301	11 397 8551
- Measured at amortized cost		*12 195 894*	*11 731 301*	*11 731 301*	*11 397 855*
Available-for-sale financial assets	-	-	1 494 028	1 494 028	1 755 950
- Debt instruments			*1 484 659*	*1 484 659*	-
- Equity instruments			*9 369*	*9 369*	-
Available-for-sale fixed assets		-	-	-	698
Financial assets measured at fair value through other comprehensive income	19	1 552 738	-	-	-
- Debt instruments		*1 552 738*	-	-	-
Financial instruments measured at fair value through profit or loss	20	13 950	-	-	-
- Equity instruments		*13 950*	-	-	-
Derivative instruments in hedge accounting	25	-	5 538	5 538	8 023
Intangible assets	21	47 835	52 807	52 807	47 006
Tangible fixed assets	22	52 214	62 234	62 234	66 527
Income tax assets		170 925	157 017	153 161	162 554
- Current income tax receivables		-	1 677	1 677	-
- Deferred tax assets	23	170 925	155 340	151 484	162 554
Other assets	24	48 297	36 490	36 490	37 866
TOTAL ASSETS		**14 458 619**	**13 801 677**	**13 797 821**	**13 712 558**
LIABILITIES					-
Amounts due to banks and financial institutions	26	4 126 610	4 130 629	4 130 629	4 379 814
Amounts due to customers	27	7 741 630	6 816 778	6 816 778	6 849 692
Amounts due to debt securities	28	500 171	740 659	740 659	490 350
Provisions	29	1 326	2 164	2 164	3 998
Derivative instruments in hedge accounting	30	14 879	-	-	-
Other liabilities	31	187 010	224 883	190 698	208 952
Current income tax liabilities		-	-	-	2 087-
Subordinated debt	32	351 529	351 565	351 565	331 191
Total liabilities		**12 923 155**	**12 266 678**	**12 232 493**	**12 266 084**
Share capital (funds)	33	563 096	563 096	563 096	563 096
Supplementary capital (funds)	34	987 201	884 364	884 364	770 782
Reserve capital (fund)		-	-	-	-
Own shares		(2 956)	-	-	-
Revaluation reserve	35	9 301	15 031	15 031	(723)
Retained earnings		(124 261)	(28 663)	-	(27 125)
Net profit (loss)		103 083	101 171	102 837	140 444
Total equity		1 535 464	1 534 999	1 565 328	1 446 474
TOTAL LIABILITIES AND EQUITY		**14 458 619**	**13 801 677**	**13 797 821**	**13 712 558**

** transformed data. Information on the scope of transformations as at 31 December 2017 is included in note 2.4.*

*** audited data*

Notes presented on pages 11-117 constitute an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended on 31 December 2018

(PLN '000)	Share capital (funds)	Supplementary capital (fund)	Revaluation reserve	Own shares	Retained earnings	Net profit (loss)	Total equity
01.01.2018*	**563 096**	**884 364**	**15 031**	-	**(28 663)**	**101 171**	**1 534 999**
Adjustments to the opening balance due to the implementation of IFRS 9 (note 2.3)	-	-	(2 592)	-	(93 932)	-	(96 524)
1 Jan 2018 (adjusted data)	**563 096**	**884 364**	**12 439**	**-**	**(122 595)**	**101 171**	**1 438 475**
Allocation of profit for previous years	-	102 837	-	-	(1 666)	(101 171)	-
Net profit (loss) for period	-		-	-	-	103 083	103 083
Own shares purchased	-	-	-	(2 956)	-	-	(2 956)
Other net comprehensive income for period	-	-	(3 138)		-	-	(3 138)
31.12.2018	**563 096**	**987 201**	**9 301**	**(2 956)**	**(124 261)**	**103 083**	**1 535 464**

** transformed data. Information on the scope of transformations as at 31 December 2017 is included in note 2.4.*

The balance of revaluation reserve in the amount of kPLN 9,301 includes the measurement of debt securities in the amount of kPLN 5,303, negative valuation due to cash flow hedges in the amount of kPLN 4,096 and measurement of fair value hedges in the amount of kPLN 8,094. The revaluation reserve on equity instruments recognized as at 31 December 2017 in the amount of kPLN 2,592, in accordance with the adopted accounting principles in connection with the implementation of IFRS 9, was transferred to the retained earnings item.

In June 2018, the General Meeting of Shareholders adopted a resolution to create a reserve capital in the amount of MPLN 3 (by decreasing supplementary capital) towards the purchase of a block of shares from the majority shareholder, which effected in December 2018. As at 31 December 2018, the reserve capital has been used.

for the year ended on 31 December 2017

(PLN '000)	Share capital (funds)	Supplementary capital (fund)	Revaluation reserve	Retained earnings	Net profit (loss)	Total equity
01.01.2017	**563 096**	**770 782**	**(723)**	**-**	**141 982**	**1 475 137**
Data adjustment as at 1 January 2017 (note 2.4)	-	-	-	(27 125)	(1 538)	(28 663)
1 January 2017 adjusted data	**563 096**	**770 782**	**(723)**	**(27 125)**	**140 444**	**1 446 474**
Allocation of profit for previous years	-	141 982	-	(1 538)	(140 444)	-
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
31.12.2017	**563 096**	**884 364**	**15 031**	**(28 663)**	**102 837**	**1 536 665**
Data adjustment as at 31 December 2017 (note 2.4)	**-**	**-**	**-**	**-**	**(1 666)**	**(1 666)**
31.12.2017*	**563 096**	**884 364**	**15 031**	**(28 663)**	**101 171**	**1 434 999**

** transformed data. Information on the scope of transformations as at 31 December 2017 is included in note 2.4.*

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.

Notes presented on pages 11-117 constitute an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended on 31 December 2018

(PLN '000)	2018	2017*
NET OPERATING CASH FLOWS		
Gross profit (loss)	**149 307**	**136 848**
Total adjustments:	**265 440**	**(256 329)**
Depreciation	38 277	36 253
Interest	13 298	10 678
(Profit) loss on investment activities	1 201	692
Change in securities	(75 280)	270 061
Change in amounts due from banks	(317)	42 997
Change in amounts due from customers	(464 593)	(333 446)
Change in amounts due to banks	(4 018)	(249 185)
Change in amounts due to customers	924 852	(32 914)
Paid income tax	(10 320)	(35 135)
Change in other liabilities	11 192	13 778
Change in provisions	(607)	(1 835)
Change in other assets	(11 009)	14 192
Opening balance adjustments	(153 351)	1 742
Other adjustments	(3 885)	5 793
Net operating cash flows	**414 747**	**(119 481)**
NET CASH FLOWS ON INVESTMENT ACTIVITIES		
Income on investment activities	**313**	**-**
Disposal of intangible assets and fixed assets	**313**	
Expenses on investment activity	**(23 155)**	**(41 588)**
Expense on purchase of tangible fixed assets and intangible assets	(23 155)	(41 588)
NET CASH FLOWS ON INVESTMENT ACTIVITIES	**(22 842)**	**(41 588)**
NET FINANCIAL CASH FLOWS		
Income on financial activity	**-**	**270 000**
Inflows from the issue of debt securities	-	250 000
Change in the balance of subordinated debt	-	20 000
Expenses on financial activity	**(277 716)**	**(39 760)**
Redemption of own bonds	(240 000)	-
Purchase of own shares	(2 956)	-
Other financial expenses (incl. interest paid on the subordinated loan)	(34 760)	(39 760)
NET FINANCIAL CASH FLOWS	**(277 716)**	**230 240**
NET CASH FLOWS, TOTAL	**114 189**	**69 171**
CHANGE IN THE BALANCE OF CASH IN STATEMENT OF FINANCIAL POSITION	**114 189**	**69 171**
CASH AT THE BEGINNING OF THE PERIOD	**189 661**	**120 490**
CASH AT THE END OF THE PERIOD	**303 850**	**189 661**

** transformed data. Information on the scope of transformations as at 31 December 2017 is included in note 2.4.*

Notes presented on pages 11-117 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 2018 and contain comparative data for the year ended on 31 December 2017. 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. In Q4 2018, the Bank discontinued operations in this area.

The Bank has not benefited from public financial aid, in particular under the Act of 12 February 2009 on the provision of State Treasury support to financial institutions.

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 Holding 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 2018

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 2018, the composition of the Management Board did not change.

Composition of the Supervisory Board as at 31 December 2018

▪ 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 2018, the composition of the Bank's Supervisory Board did not change.

Approvals of the financial statements

The Financial Statements for the year ended on 31 December 2017 was approved by the General Meeting of Shareholders on 4 June 2018.

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 2018 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS) as at 31 December 2018.

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 discontinuation or significant limitation in the activities of Bank.

In 2018, the Bank received information about the planned sale of the entire block of shares by the majority shareholder. Societe Generale Finance Holding SA signed a conditional agreement on the sale of the Bank's shares with Bank Millennium SA (agreement signed on 5 November 2018). As at the date of approval of these financial statements, the Bank has not yet obtained information about the approval of the Polish Financial Supervision Authority to carry out the transaction. Bank Millennium SA declares that by the end of 2019 it intends to conduct legal and operational merger of the Bank.

2.3. Changes in accounting principles over the financial year, new standards, interpretations and amendments to existing standards

The following new standards, 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 2018:

- 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 – approved by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 "Share-based Payment" – classification and measurement of share-based payment transactions – approved by the EU on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- 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),
- Amendments to IAS 40 "Investment Property" – transfers of investment property – approved by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 1 and IAS 28 as a result of the "Amendment to IFRS (cycle 2014-2016)" – amendments made under the procedure of introducing annual improvements to IFRS (IFRS 1, IFRS 12 and IAS 28) focused primarily on resolving inconsistencies and clarifying wording – approved by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018),
- IFRIC interpretation 22 "Foreign Currency Transactions and Advance Consideration" – approved by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The above-mentioned new standards, amendments to standards and interpretations did not have a material impact on the Bank's financial statements for 2018, except for IFRS 9. The impact of IFRS 9 on the financial situation of the Bank is presented later in the document.

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

- IFRS 16 "Leases" – approved by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

  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. The new standard presents a comprehensive model of identification of lease agreements and their settlement in the financial statements of lessors and lessees. It replaces IAS 17 Leases. The standard introduces changes to the settlement principles on the part of the lessee, and departs from the distinction between operating and financial lease. The standard, however, does not introduce material changes to the requirements for lessors. They still recognize operating and financial leases as two separate types of lease.

In accordance with IFRS 16, a lessee recognizes the right to use an identified asset and the liability under lease. The right to use an asset is treated similarly to other non-financial assets, and its costs are recognized in the profit and loss account through amortization. Lease liabilities are initially measured at the current value of lease payments payable during the lease period, determined using the marginal interest rate.

- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation – approved by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),

  The above amendments to IFRS 9 allow entities to measure financial assets with the so-called the right to early repayment with negative compensation at amortized cost or at fair value through other comprehensive income, after meeting certain conditions, instead of measuring them at fair value through profit or loss.

  The amendments also clarify that the financial instrument may fulfill the SPPI test also if in the case of early repayment, the compensation could be paid by either the lender or the borrower to the other party, sometimes referred to as a symmetrical or "bilateral" prepayment clause. The amendments to the standard also provide clarifications regarding the determination of the fair value of repayment and the value which constitutes "reasonable compensation" in case of early repayment in accordance with IFRS 9,

- IFRIC interpretation 23 "Uncertainty over Income Tax Treatments" – approved by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Bank decided not to take advantage of the possibility of earlier application of the above-mentioned new standards and amendments to existing standards and interpretations. According to the Bank's estimates, the aforementioned new standards and amendments to existing standards would not have a significant impact on the financial statements if they had been applied as at the balance sheet date on 31 December 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 2018 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 3 "Business Combinations" – Definition of a Business (effective for combinations in which the acquisition date is at the beginning of the first annual period beginning on or after 1 January 2020 and with reference to the acquisition of assets that occurred on the day of commencement of the above-mentioned annual period or later),

- 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 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- 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 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),
- Changes in references to the conceptual framework in IFRS (effective for annual periods beginning on or after 1 January 2020).

According to the Bank's estimates, the aforementioned new standards and amendments to existing standards would not have a significant impact on the financial statements if they had been applied by the Bank as at the balance sheet date on 31 December 2018.
The hedge accounting of the portfolio of financial assets and liabilities, the principles of which have not been approved for use in the EU, remains outside the regulations approved by the EU.

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 first application, with the exception of IFRS 16, which will apply from 1 January 2019. Information on the implementation of IFRS 16 is included in note 2.11 Leases.

When preparing these statements, the Bank consistently applied the adopted accounting principles both for the reporting period for which the statements are prepared and for the comparative period, excluding changes resulting from the introduction of IFRS 9 "Financial Instruments" as of 1 January 2018.

The impact of the implementation and changes in accounting principles resulting from the entry into force of the IFRS 9 standard on the financial statements of the Bank is presented below.

In July 2014, the International Accounting Standards Board issued IFRS 9 "Financial Instruments", which applies as of 1 January 2018, and replaced the previous IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 sets out new rules in the following areas:

- classification and measurement of financial instruments,
- recognition and calculation of impairment,
- hedge accounting.

Classification and measurement of financial instruments

In accordance with the requirements of IFRS 9, financial assets are classified in one of three categories:

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

The classification of financial assets is based on:

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

When determining the business model, the Bank analyzes 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 staff to the management of instruments in given portfolios.

When assessing the business model, the Bank is 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,
- risk management in reference to the business model.

The business model in the intention of the management staff does not refer to a single instrument, therefore its assessment is carried out at a higher level of aggregation. The Bank determines whether it intends to implement the following for individual groups of financial assets:

- cash flows from contractual payments throughout the life of the instrument,
- from its sale or,
- from contractual payments throughout the life of the instrument, but with the determination of the potential sale of assets in the future.

The Bank determines the manner of asset management in order to achieve economic benefits (generate cash flows and create value).

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

- "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.

- "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 previously classified under the terms of IAS 39 to the AFS portfolio (available-for-sale assets),
- "other" – this model applies to financial assets that cannot be included either in the "retention" business model or the "retention and sale" model.

Based on the business models identified in this way, taking into account the results of the SPPI tests (contractual cash flows test; solely payments of principal and interest), the Bank conducts a balance-sheet classification of financial assets and defines the principles of their measurement. The Bank defines a business model each time for a new separate group of financial assets. If the Bank decides to change the model in the area of financial asset management, it will reclassify the entire portfolio

of financial assets assigned to a given business model, and the effects related to the change of measurement categories will be recognized on a one-off basis in the profit or loss or in other comprehensive income.

As at the initial recognition date, financial assets classified to individual business models have been divided into smaller portfolios. The Bank reviewed its assets, focusing in particular on the loan portfolio as the most important element affected by IFRS 9, and in particular comprehensively reviewed agreements and regulations of loan products in terms of identification of provisions material from the point of view of the standards set out in IFRS 9. The purpose of the analysis was to identify elements that could not be considered only as repayment of the principal and interest accrued on the principal outstanding.
For the purpose of determining the features of cash flows, the Bank performed a comprehensive review of contractual provisions for individual product portfolios. The Bank performed SPPI tests, taking into account qualitative and quantitative factors in their interpretation.
In the Bank's opinion, all credit products have passed SPPI tests.

The Bank periodically analyzes its business models in the area of asset management and analyzes the features of cash flows resulting from the agreements in force with clients (SPPI tests). The Bank also performs such an assessment and analysis for each new type of financial assets and in case of changes in the terms of agreements concluded with clients. Ongoing assessment of changes covers, in particular, the following areas of agreements:

- interest rate based on the Lombard rate multiplier (application of financial leverage),
- application of the grace period option,
- the early repayment option,
- promotional campaign rules,
- cross-selling and related promotions,
- provisions of interest rate change depending on changes in the financial parameters of the money and capital market.

The determination of the business model in relation to particular groups of financial assets, in combination with the determination of cash flows resulting from the agreement, constitutes the basis for determining the principles for financial assets measurement.

Based on the above, the Bank uses the following measurement methods for material groups of financial assets:

- portfolios of credits and loans granted to clients and amounts due from banking entities were classified by the Bank to the "retention" portfolio. These assets have successfully passed the SPPI tests; therefore, the Bank measures them at amortized cost,
- debt securities were classified by the Bank to the "retention and sale" portfolio. The Bank measures them at fair value through other comprehensive income,
- equity instruments, in particular the shares of Visa Inc., were classified by the Bank to the "other" portfolio. The Bank measures them at fair value with the measurement effect recognized in the profit and loss account.

At as the implementation of IFRS 9, the Bank reclassified this asset from the category of assets available for sale. Accumulated profits/losses recognized so far in other comprehensive income have been charged as at first recognition to equity items, and under IFRS 9 are recognized in the profit and loss account.

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

Financial assets	**IAS 39**	**IFRS 9**
Amounts due from customers	loans and other receivables (measured at amortized cost)	financial assets measured at amortized cost
Amounts due from banks and financial institutions	loans and other receivables (measured at amortized cost)	financial assets measured at amortized cost
Debt securities	financial assets available for sale (measured at fair value recognized in other comprehensive income)	financial assets measured at fair value recognized in other comprehensive income
Equity securities	financial assets available for sale (measured at fair value recognized in other comprehensive income)	financial assets measured at fair value are recognized in the profit and loss account

The Bank has not made a decision to use the fair value model through profit or loss for loans, for which the interest rate formula was originally based on a multiplier.

At the initial stage of the analysis product agreement provisions, the Bank 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 1 January 2018 based on both methodologies, and the results obtained did not indicate significant differences. A possible effect of the measurement of the credit card portfolio at fair value would therefore not have a significant impact on its balance sheet measurement.

At the same time, in 2018 the Bank took actions aimed at changing the provisions of agreements with clients so that they would not raise any doubts as to the possibility to apply measurement at amortized cost in relation to credit portfolios, in accordance with the requirements of IFRS 9.

As at 31 December 2018, the Bank does not have any agreements, in which the calculation of contractual interest is based on the multiplier formula.

Modifications to the terms of loan agreements

The Bank recognizes the financial consequences of the modification in a situation when there has been a change (renegotiation/modification) in cash flows specified in the originally concluded agreement with the client. The change in contractual flows resulting from the performance of contractual terms does not constitute a modification.

If the terms of the contract change, the Bank assesses whether the cash flows generated by the modified asset differ significantly from the financial flows generated by the financial asset before the modification of the contractual terms.

Typical modifications made in agreements include:

- schedule changes (as a result of overpayment, extension of the schedule, prolongation) where they do not result from contractual provisions,
- restructuring (of a nature that is not a prerequisite for derecognition).

The Bank assesses the significance of modifications based on qualitative assumptions and quantitative tests. Both groups of criteria are analyzed jointly.

The Bank assesses changes in agreement schedules (change in the repayment dates of all or part of the debt, change in the amount of installments repaid), where it does not result from the provisions of the agreement with the client and is confirmed by the conclusion of a relevant annex with the client.

The quantitative criterion used to determine the impact of modification is the so-called 10% test. This test is based on the assessment of the difference between discounted cash flows on the modified asset (determined at the original interest rate) and the discounted (also by the original interest rate) cash flows of the asset before modification.

The qualitative factors taken into account by the Bank in assessing the scope and significance of changes in the terms of a loan agreement are:

- adding/removing the SPPI test to the contractual feature causing a violation,
- change in the currency of the loan, with the exception of currency conversion resulting from reaching the maturity status and a situation when the possibility of conversion was determined in the original contractual terms,
- change of the borrower, excluding the change resulting from the death of the client and taking over the debt by the heir and adding/removing joint and several debtor.

The Bank recognizes that a material modification, resulting in the exclusion of an asset from the balance sheet, takes place in the following cases:

- the cash flows on the modified instrument are "materially different" to the original instrument, i.e. when the difference between the discounted cash flows on the modified asset, using the original effective interest rate and the discounted original interest rate for the instrument before modification, is more than 10%.
- at least one of the above-mentioned qualitative criteria has been met.

If the difference between the amount of future cash flows for the original asset and the assets after modification, including the original interest rate, is less than 10%, the Bank considers the modification as immaterial unless the qualitative criteria are met.
The quantitative criterion does not apply to loans subject to the restructuring process. The loan restructuring is recognized in the Bank as an immaterial modification.

In the event of renegotiations or other modification of contractual cash flows generated by a given asset, the Bank performs the revaluation of the gross carrying amount of that financial asset (i.e. the amount of its amortized cost before including an impairment loss for expected credit losses). If

the terms of the modified agreement are not fundamentally different, the renegotiation or modification does result in the removal of the exposure from the balance sheet. The revaluation involves discounting new expected contractual cash flows (after modification) using the original effective interest rate. The recalculated difference arising from modifications considered by the Bank as immaterial is recognized as a profit/loss in the profit and loss account (in the "result on modification" item).
If renegotiation or other modification of contractual cash flows generated by an asset constitutes a material modification, this results in its removal from the balance sheet of the Bank, in accordance with IFRS 9. The modified instrument is treated as new one and is recognized again in the Bank's books at its fair value and is discounted using a new effective interest rate. The date of modification is treated as the date of initial recognition, respectively, applying the impairment requirements in relation to the modified agreement.

IFRS 9 distinguishes a new category of financial assets – purchased or originated credit-impaired assets (POCI). POCI assets are those that meet impairment triggers at the time of initial recognition. Assets classified as POCI remain in this group throughout the entire life cycle.
POCI assets may arise as a result of:

- purchase of agreements that meet the POCI conditions (purchase of the so-called bad loan portfolio),
- entering into an agreement that meets the POCI criteria at the time of initial recognition,
- modification considered material for the asset in Stage 3, qualifying asset for derecognition from the balance sheet and re-recognition as an asset meeting the POCI criteria.

The initial recognition of POCI occurs at fair value. Interest income on POCI assets is calculated on the net carrying amount using the effective interest rate, adjusted for the credit risk recognized for the entire life cycle of the asset. The effective interest rate adjusted for credit risk is calculated by taking into account future cash flows adjusted for the credit risk effect recognized over the entire life of the asset. The change in estimates regarding future recoveries in subsequent reporting periods is recognized as a loss or profit on impairment.
Due to the business nature (retail banking), based on the portfolio of own receivables and the nature of changes made to the contractual provisions, the Bank does not identify POCI assets. The Bank does not purchase or generate assets with recognized impairment. Changes in the terms of the agreements are not of material nature (in particular, possible currency conversions prior to termination and changes of the borrower

are occasional in nature), therefore they do not result in the need to discontinue recognizing assets in the Bank's balance sheet.

Impairment

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

Under IFRS 9, the Bank estimates 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. The Bank has developed and maintains statistical models that allow for the estimation of forward looking adjustments to the parameters used in the ECL estimation process. In 2018, adjustments to PD parameters were used.

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 credit exposures has be divided into 3 segments: Stage:

- Stage 1: original credit exposure recognition segment. Financial assets for which the credit risk did not increase materially since the initial recognition and for which expected credit losses are calculated based on probabilities of impairment in a 12-month horizon,
- Stage 2: credit exposures characterized by a premise indicating a significant increase in credit risk, for which expected losses are calculated over the entire exposure horizon,
- Stage 3: impaired credit exposures, corresponding to the group of impaired loans identified previously in accordance with IAS 39. The expected credit loss is estimated over the exposure horizon.

The methodology developed by the Bank for estimating expected credit losses covers, in particular, the modeling of PD parameters for portfolios classified 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 behavioral scoring and a number of variables describing the future repayments timeliness. The Bank defined the so-called general criteria for the classification of exposures to Stage 2 that are identified at the client level. The key general criterion is for any client's exposure to reach a 30-day delay. An additional general criterion is the presence of the client in the quarantine period after reclassification of any agreement to the non-impairment category after previous restructuring. In addition to general criteria, the Bank identified specific criteria for individual product groups that are related to the current behavior of the client, e.g. re-initiation of the debt collection process, external information about difficulties in paying liabilities. The criteria identified by the Bank allow to classify for Stage 2 exposures, whose credit risk is about 2.9-5 times higher than the risk of exposures in Stage 1. The methodology for estimating the probability of an impairment event uses the approximation of the future level of probability of impairment based on cumulative default curves with particular emphasis on current observations.

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, assigning them a relevant level of the CCF parameter. 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 measurement of expected credit losses as of the date of implementation of IFRS 9 were charged to retained earnings. The table below presents the impact of the new standard on the opening balance of 2018.

(PLN '000)	**31.12.2017* (IAS 39)**	**reclassification (1)**	**revaluation (2)**	**01.01.2018 (IFRS 9)**
ASSETS				
Cash and balances with Central Bank	163 237	-	-	163 237
Amounts due from banks	99 025	-	10	99 035
- Measured at amortized cost	*99 025*	-	*10*	*99 035*
Customer loans	11 731 301	-	(117 311)	11 613 990
- Measured at amortized cost	*11 731 301*	-	*(117 311)*	*11 613 990*
Available-for-sale financial assets	1 494 028	(1 494 028)	-	-
- Debt instruments	*1 484 659*	*(1 484 659)*	-	-
- Equity instruments	*9 369*	*(9 369)*	-	-
Financial assets measured at fair value through other comprehensive income	-	1 484 659	-	1 484 659
- Debt instruments	-	*1 484 659*	-	*1 484 659*
Financial instruments measured at fair value through profit or loss	-	9 369	-	9369
- Equity instruments	-	*9 369*	-	*9369*
Derivative instruments in hedge accounting	5 538	-	-	5 538
Intangible assets	52 807	-	-	52 807
Tangible fixed assets	62 234	-	-	62 234
Income tax assets	157 017	-	22 640	179 657
- Current income tax receivables	*1 677*	-	-	*1 677*
- Deferred tax assets	*155 340*	-	*22 640*	*177 980*
Other assets	36 490	-	(356)	36 134
TOTAL ASSETS	**13 801 677**	**-**	**(95 017)**	**13 706 660**
LIABILITIES				
Amounts due to banks and financial institutions	4 130 629	-	-	4 130 629
Amounts due to customers	6 816 778	-	-	6 816 778
Amounts due to debt securities	740 659	-	-	740 659
Provisions	2 164	-	1 507	3 671
Derivative instruments in hedge accounting	-	-	-	-
Other liabilities	224 883	-	-	224 883
Current income tax liabilities	-	-	-	-
Subordinated debt	351 565	-	-	351 565
Total liabilities	**12 266 678**	**-**	**1 507**	**12 268 185**
Share capital (funds)	563 096	-	-	563 096
Supplementary capital (funds)	884 364	-	-	884 364
Reserve capital (fund)	-	-	-	-
Own shares		-	-	-
Revaluation reserve	15 031	(2 592)	-	12 439
Retained earnings	(28 663)	2 592	(96 524)	(122 595)

Net profit (loss)	101 171	-	-	101 171
Total equity	**1 534 999**	**-**	**(96 524)**	**1 438 475**
TOTAL LIABILITIES AND EQUITY	**13 801 677**	**-**	**(95 017)**	**13 706 660**

**transformed data*

(1) Reclassification of securities. The Bank assessed the business model of debt securities held, classified under IAS 39 to the available-for-sale financial assets portfolio. Under the terms of IFRS 9, the Bank classified debt securities in the "retention and sale" portfolio, and reclassified them to the category of financial assets measured at fair value through other comprehensive income.

Equity securities held (Visa Inc. shares) are classified by the Bank as measured at fair value and recognized in the profit and loss account. The effects of previous measurement, recognized in other comprehensive income, at the time of the initial recognition under the IFRS 9 standard, were transferred by the Bank to the retained earnings item.

(2) The revaluation of the loan portfolio, trade receivables (receivables from counterparties, presented under other assets item) and provisions for off-balance sheet liabilities.

The following is a change in allowances for expected credit losses and provisions created by the Bank, the value of which has changed as a result of the implementation of IFRS 9

(PLN '000)	**01.01.2018 (IAS 39)**	**revaluation**	**interest reclassification**	**01.01.2018 (IFRS 9)**
Allowances for expected credit losses - amounts due from banks	12	(10)	-	2
Allowances for expected credit losses on the portfolio of credits and loans from clients measured at amortized cost	656 021	117 311	162 797	936 129
Allowances for expected credit losses for other receivables	9 400	356	-	9 756
Provisions for off-balance sheet liabilities	-	1 067	-	1 067
Other provisions	-	440	-	440
TOTAL	**665 433**	**119 164**	**162 797**	**947 394**

With the implementation of IFRS 9, the Bank changed the principles of calculation and presentation of gross value of impaired credit exposures (Stage 3). So far, the Bank recognized only the value of impairment interest as part of the gross value of the exposure. Currently, the Bank introduced a definition referring to interpretations issued to IFRS 9, according to which the gross value of such exposures should be recognized as the sum of principal debt and contractual interest (including penalty interest), taking into account measurement at amortized cost. The Bank created an additional impairment allowance for the increased gross exposure value (interest). Adjustment of interest income, reducing the interest income of exposures classified to Stage 3 to the level of impairment interest, is recognized as an element of impairment loss for expected credit losses. The increase in the gross value of credit exposures and the related increase in impairment allowances as at the time of initial recognition amounted to mPLN 162.8. The above change had no effect on the net balance sheet value of exposures and the values recognized in the profit and loss account.

Presented below are the allowances for expected credit losses and provisions recognized by the Bank as at 1 January 2018, broken down by Stages.

(PLN '000)	Stage 1	Stage 2	Stage 3	total
Allowances for expected credit losses - amounts due from banks	2			2
Allowances for expected credit losses on the portfolio of credits and loans from clients measured at amortized cost	48 476	111 053	776 600	936 129
Allowances for expected credit losses for other receivables	9 756	-	-	9 756
Provisions for off-balance sheet liabilities	140	927	-	1 067
Other provisions	440	-	-	440
TOTAL	**58 814**	**111 980**	**776 600**	**947 394**

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

(PLN '000)	IAS 39	IFRS 9	change
Amounts due from banks	99 025	99 035	10
Amounts due from customers	11 731 301	11 613 990	(117 311)
Other assets	36 490	36 134	(356)
Provisions	2 164	3 671	1 507
- of which provisions for off-balance sheet liabilities granted	-	1 067	1 067
- of which provisions for debt securities	-	440	440

The value of other financial assets 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 119,164 and the related increase in the net deferred tax asset in the amount of kPLN 22,640 decreased the balance of retained earnings as at 1 January 2018. In addition, as at the date of initial recognition, the Bank reclassified to the retained earnings the amount of the revaluation reserve of financial assets, for which the Bank adopted the measurement at fair value through the profit and loss account in the amount of kPLN 2,592.

Compared to the disclosure of the impact of the implementation of IFRS 9 as at 1 January 2019 in the annual financial statements for 2017, the Bank made the following changes:

- The reclassification and adjustment of the estimated value of credit losses for exposures in Stage 1 and Stage 2. In 2018, the Bank revised the methodology for estimating impairment losses on non-impaired receivables, in particular adopted additional criteria for classifying exposures to Stage 2 and changed the estimation method of the PD parameter. As a result of the implemented changes, the impact of the new methodology for estimating impairment losses on non-impaired receivables on the opening balance of 2018 slightly increased.

- Change in the presentation of the value of credit exposures. Until now, for impaired exposures classified to Stage 3, the Bank only recognized the value of impairment interest as part of the gross value of the exposure. Currently, the Bank introduced a definition referring to interpretations issued to IFRS 9, according to which the gross value of such exposures should be recognized as the sum of principal debt and contractual interest, taking into account measurement at amortized cost. For the added value of the gross exposures (interest) the Bank created an additional allowance in the same amount. Adjustment of interest income, reducing the interest income of exposures classified to Stage 3 to the level of impairment interest, is recognized as an element of impairment loss for expected credit losses. The increase in the gross value of credit exposures and the related increase in allowances as at the time of initial recognition under IFRS 9 amounted to mPLN 163. The above change had no effect on the net balance sheet value of exposures and the values recognized in the profit and loss account.

Impact of IFRS 9 on capital adequacy

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 did not decrease significantly.

Impact of IFRS 9 on capital adequacy

(PLN '000)	IAS 39	IFRS 9	change
Own funds	1 645 114	1 612 870	(32 244)
Tier 1 ratio	13,61%	13,32%	(0.29 pps)
Total capital ratio	16,01%	15,73%	(0.28 pps)

2.4. Adjustment of comparative data in the financial statements

In 2018, the Bank adjusted the payment of benefits to employees as a result of incorrect methodology used to calculate their base in previous periods. The adjustments relate to the period 2003-2018 and include, in particular, benefits for holiday pay, related penalty interest and the costs of contributions to the Social Insurance Institution (ZUS). Due to the fact that a significant part of the costs incurred by the Bank pertain directly to previous years, the Bank decided to recognize them through the adjustment of capitals. Only amounts related to adjustments for the current year and penalty interest accrued in the current year on amounts outstanding to employees will be recognized in the current profit and loss account.

As a result of the adjustment, the comparative data for 2017 changed. Detailed data are presented in the table below.

(PLN '000)	**01.01.2017**	**adjustment**	**01.01.2017 transformed data**	**31.12.2017***	**Adjustment**	**2017 transformed data**
Deferred tax assets	158 774	3 780	162 554	151 484	3 856	155 340
Other liabilities	176 509	32 443	208 952	190 698	34 185	224 883
Income tax	-	46	46	(35 753)	76	(35 677)
Retained earnings	-	(27 125)	(27 125)	-	(28 663)	(28 663)
Operating expenditure	-	(1 584)	(1 584)	(448 880)	(1 742)	(450 622)
Net financial result	-	-	-	102 837	(1 666)	101 171
Financial result of the previous year (pending approval)	141 982	(1 538)	140 444	-	-	-

**audited data*

Bank's balance sheet as at 31 December 2017 – transformed data

(PLN '000)	**31.12.2017***	**adjustment**	**31.12.2017 transformed data**
ASSETS			
Cash and balances with Central Bank	163 237	-	163 237
Amounts due from banks	99 025	-	99 025
Amounts due from customers	11 731 301	-	11 731 301
Financial assets held for sale	1 494 028	-	1 494 028
Derivative instruments in hedge accounting	5 538	-	5 538
Intangible assets	52 807	-	52 807
Tangible fixed assets	62 234	-	62 234
Current income tax receivables	1 677	-	1 677
Deferred tax assets	151 484	3 856	155 340
Other assets	36 490		36 490
TOTAL ASSETS	**13 797 821**	**3 856**	**13 801 677**
LIABILITIES			
Amounts due to banks and financial institutions	4 130 629	-	4 130 629
Amounts due to customers	6 816 778	-	6 816 778
Amounts due to debt securities	740 659	-	740 659
Provisions	2 164	-	2 164
Derivative instruments in hedge accounting	--	-	-
Other liabilities	190 698	34 185	224 883
Current income tax liabilities	-	-	-
Subordinated debt	351 565	-	351 565
Total liabilities	**12 232 493**	**34 185**	**12 266 678**
Share capital (funds)	563 096	-	563 096
Supplementary capital (funds)	884 364	-	884 364
Reserve capital (fund)	-	-	-
Revaluation reserve	15 031	-	15 031
Retained earnings	-	(28 663)	(28 663)
Net profit (loss)	102 837	(1 666)	101 171
Total equity	1 565 328	(30 329)	1 534 999
TOTAL LIABILITIES AND EQUITY	**13 797 821**	**3 856**	**13 801 677**

**audited data*

Statement of comprehensive income for the year ended on 31 December 2017

(PLN '000)	2017*	adjustments	2017 transformed data
Going concern business			
Interest income	866 295	-	866 295
Interest expense	(204 125)	-	(204 125)
Net interest income	**662 170**	**-**	**662 170**
Commission income	92 394	-	92 394
Fee and commission expense	(41 809)	-	(41 809)
Net commission income	**50 585**	**-**	**50 585**
Net income on financial operations	(1 528)	-	(1 528)
Foreign exchange result	4 088	-	4 088
Fair value adjusment result in hedge accounting	**1 886**	**-**	**1 886**
Result on financial assets and liabilities at fair value through profit or loss		**-**	**-**
Net banking income	**717 201**	**-**	**717 201**
Other operating income	47 394	-	47 394
Other operating expense	(18 967)	-	(18 967)
Operating expenditure	(448 880)	(1 742)	(450 622)
Depreciation	(36 254)	-	(36 254)
Result on allowances for expected credit losses	(121 904)	-	(121 904)
Gross result on operations	**138 590**	**(1 742)**	**136 848**
Gross profit (loss)	**138 590**	**(1 742)**	**136 848**
Income tax	**(35 753)**	**76**	**(35 677)**
Net profit (loss)	**102 837**	**(1 666)**	**101 171**
Other comprehensive income – items that may be reclassified to the profit and loss account	**15 754**	**-**	**15 754**
Net profit (loss) on revaluation of financial assets available for sale	6 592	-	6 592
- including deferred tax	(1 546)	-	(1 546)
Net profit (loss) on measurement of derivatives hedging cash flows and fair value (resulting from contracts not settled at the reporting date):	9 162	-	9 162
- including deferred tax	(2 149)	-	(2 149)
Items that cannot be reclassified to the profit and loss account	**-**	**-**	**-**
Total other comprehensive income	**15 754**	**-**	**15 754**
Total net comprehensive income	**118 591**	**(1 666)**	**116 925**

**audited data*

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. Other financial assets and liabilities (including loans and advances) are disclosed at amortized cost less expected credit losses 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 2018	*31 December 2017*
USD	3,7597	3,4813
EUR	4,3000	4,1709
CHF	3,8166	3,5672
GBP	4,7895	4,7001
SEK	0,4201	0,4243
NOK	0,4325	0,4239
DKK	0,5759	0,5602
CZK	0,1673	0,1632

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. This draft was referred to the Parliament (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. The effect of further legislative work was the adoption, on 24 January 2019, of the proposed draft Act, including presidential amendments by the Extraordinary Subcommittee of the Public Finance Committee. On 20 February 2019, the Public Finance Committee took up further works on the draft Act.

An important change provided for in the draft Act is the possibility for the lender to obtain funds from the Conversion Fund for the purpose of supporting voluntary conversion, consisting in covering the difference between the balance sheet value of debt to be converted and the balance sheet value of the converted debt from the newly established 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 rate defined by the parties in the agreement. The lender may apply for the allocation of funds for the purpose of voluntary conversion of the amounts due to be converted up to the amount of the quarterly contribution made by the bank. The support for voluntary conversion does not apply to cases where the determination of the total amount of the housing loan principal as a result of voluntary conversion 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 Conversion Fund are not used at the level of at least 80% of the contribution made, 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 conversion of converted debts, bearing in mind the stability of the financial system and the efficient use of funds under the Fund.

On 16 April 2018, the Regional Court in Warsaw filed a request with the Court of Justice of the European Union (CJEU) for a preliminary ruling regarding clients against Raiffeisen Bank Polska SA. On 21 August 2018, the Court of Justice of the European Union was provided with written comments of the Republic of Poland submitted under Article 23 of the Statute of the Court of Justice in the proceedings for the preliminary ruling in Case C-260/18.

The Bank is a party to court proceedings with customers who have agreements for loans indexed to Swiss franc granted by Euro Bank SA. In connection with pending proceedings before the CJEU, Polish courts incidentally suspend court proceedings in cases concerning CHF loans. In cases where Euro Bank S.A. is a party, 6.61% of proceedings have been suspended.

2.8. Fixed assets held 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 a fixed asset is made available for use, such as maintenance and repair costs, are charged against the result of the Bank 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 by the 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.

From 1 January 2019, the new standard IFRS 16 Leases applies. In accordance with it, 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, in particular, to contracts for the rental of buildings (the Bank's HQ and bank branches) and the lease of means of transport.

In accordance with the provisions of IFRS 16, there is a possibility of exemption from the requirements of the standard in two cases:

- leases for which the underlying asset is of low value, with the Bank accepting the threshold of the so-called low value assets at the level of USD 5,000.
- short-term contracts with a lease term of 12 months or less

In the aforementioned cases, lease payments are recognized over the lease period in profit or loss using the straight-line method or in another systematic manner.

In the course of analyses, the Bank identified short-term and indefinite-time branch lease contracts with the option of short-term notice. In this case, the Bank benefited from the exemptions provided for in IFRS 16 as described above. The Bank also exercised such exemption with respect to the lease agreements for parking spaces.

The implementation of IFRS 16 means changes in the recognition and accounting of lease contracts.

The bank, as the lessee, has decided to apply this standard in accordance with Annex C, IFRS 16, C5 (b), i.e. without transformation of comparative data.

The bank decided to implement the standard using the simplified method. It assumes the recognition of an asset at the time of the entry into force of IFRS16. The determination of lease assets and liabilities is made only for those contracts for which, as at the implementation date, the period until the end of the contract is over 12 months. The Bank recognizes a right-of-use asset in the value of lease liability. The implementation of IFRS 16 did not affect the adjustment of the Bank's equity at the time of its first application.

The application of the new standard will have an impact on the recognition, presentation, measurement and disclosure of assets under operating lease and the corresponding liabilities in the financial statements of the Bank as the lessee. The implementation of the standard will result in an additional asset item in the Bank's balance sheet (right-of-use assets) and liabilities (liability under lease) in the estimated value of mPLN 91.

The Bank estimates that the new recognition of lease in the accounting books will not have a material impact on the financial standing and the profit and loss account.

The table below presents the impact of the implementation of the standard on the Bank's balance sheet as at 1 January 2019

(PLN '000)	**Assets**	**Liabilities**
Lease (contracts in PLN)	57 356	57 356
Lease (contracts in EUR)	31 214	31 214
Leasing of means of transport	2 184	2 184
TOTAL	90 754	90 754

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 mostly 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

The Bank recognizes a financial asset or financial liability in the statement of financial position if and only if it becomes bound by the provisions of the instrument's contract.

Financial assets purchased or sold through a standard purchase or sale transaction are recognized or ceased to be recognized as at the date of the transaction. The Bank ceases to recognize a financial asset when contractual rights to cash flows from a financial asset expire, or when it transfers its assets, and this transfer results in the removal of the asset from the balance sheet.

The Bank removes a financial liability (or a part thereof) from the statement of financial position when the liability ceased to exist, i.e. when the obligation specified in the contract has been fulfilled, canceled or expired.

With the exception of trade receivables, at the time of initial recognition, the Bank measures a financial asset or financial liability at its fair value. For financial assets and liabilities not measured at fair value through profit or loss, this value is reduced or increased by transaction costs that can be directly attributed to the acquisition or issue of those financial assets or liabilities. If transaction costs are immaterial, the Bank may disregard them in the initial value of financial assets and liabilities.

After initial recognition, the Bank measures a financial asset

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

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

- a financial asset is held in accordance with the business model, the purpose of which is to retain financial assets to obtain cash flows arising from the contract,
- terms of a contract related to a financial asset result in cash flows generated as specific times, which only include repayment of the principal and interest on the principal outstanding.

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

- the financial asset is held in accordance with the business model, the purpose of which is both to receive cash flows resulting from a contract and the sale of financial assets, and
- terms of a contract related to a financial asset result in cash flows generated as specific times, which only include repayment of the principal and interest on the principal outstanding.

A financial asset is measured at fair value through profit or loss, unless it is measured at amortized cost or at fair value through other comprehensive income, in accordance with the rules set out in the items above (for assets not held for trading).

At the moment of initial recognition, the Bank may irrevocably determine a financial asset that would otherwise be measured at amortized cost or fair value through other comprehensive income as measured at fair value through profit or loss if it eliminates or significantly reduces the inconsistency of the measurement or recognition ("accounting mismatch"), which would otherwise arise due to the measurement of assets or liabilities or the recognition of related gains or losses according to different rules.

Financial assets being equity instruments are measured at fair value through the financial result, unless at the time of initial recognition the Bank makes an irrevocable choice with respect to these instruments, to recognize subsequent changes in fair value through other comprehensive income.

The Bank reclassifies financial assets if and only if it changes the financial model for the management thereof in a material way for the Bank's operations.

The Bank reclassifies financial assets prospectively, starting from the reclassification date. The reclassification date is deemed by the Bank to be the first day of the reporting period following the date of the decision to change the business model. The Bank does not convert any previously recognized profits, losses (including profits or losses due to impairment) or interest.

2.14. Impairment of financial assets

The Bank determines expected impairment loss for the financial asset in relation to:

- financial assets measured at amortized cost or at fair value through other comprehensive income, other than investments in equity instruments measured at fair value through other comprehensive income as at the time of initial recognition,
- contingent commitments to grant a credit or loan,
- financial claims and contractual assets.

The Bank applies impairment requirements for the recognition and measurement of an impairment loss for expected credit losses on financial assets that are measured at fair value through other comprehensive income, other than equity investments measured at fair value through other comprehensive income. This impairment loss is recognized in the profit and loss account, but it does not reduce the carrying amount of a financial asset in the statement of financial position.

The Bank creates an impairment loss for expected credit losses for off-balance sheet commitments to disburse credits or loans as well as for granted credit lines.

Assets recognized at amortized cost

The purpose of the impairment requirements is to recognize expected credit losses over the entire lifetime of financial instruments, for which a significant increase in credit risk has been noted since the initial recognition, taking into account all rational and documentable information, including those concerning the future. If, as at the reporting date, the credit risk related to the financial instrument has not materially increased since the initial recognition, the Bank calculates an allowance equal to the 12-month expected credit loss.

At each balance sheet date, the Bank assesses changes in the credit quality since the initial recognition of financial assets or a group of financial assets.

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 pretenses,
- 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.

The Bank applies a methodology for the creation of allowances for non-impaired receivables based on a statistical approach. In particular, it develops and maintains models for the estimation of expected credit losses over a 12-month horizon for Stage 1 exposures and for the lifetime of exposures in Stage 2 and 3.

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.

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 direct quotations, 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 hedge and type of the hedged item. Gains and losses arising from changes in the fair value of derivatives not designated to hedge accounting are recognized directly 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:

<u>Interest rate risk instruments</u>:

- Interest rate swaps (IRS)

IRS transactions are measured at fair value based on the method of discounting future cash flows.

The Bank designated all of the IRS transactions concluded as hedging instruments. The method of recognition and measurement of hedging financial instruments is described in the section on hedge accounting.

FX risk instruments:

- FX Forward, Non deliverable forward (NDF)

Forward transactions are measured at fair value based on the method of discounting future cash flows. Changes in the fair value of FX forward / NDF transactions are recognized in the foreign exchange result item.

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 benefits 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.

a. 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 the profit and loss account.

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 and loss account.

If the hedge concerns only specified risk types, which may be assigned the hedged item, the recognition of the change in the fair value of the hedged item (not measured at amortized cost) that is not related to the hedged risk follows the general accounting principles for a given category of financial instruments. In particular, the measurement of hedged financial assets classified as measured at fair value through other comprehensive income, resulting from factors other than hedged risks, is presented in other comprehensive income until the asset is sold or until its maturity.

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 the profit and loss account. 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 the profit and loss account. 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. For financial assets classified as measured at fair value through other comprehensive income, changes in fair value starting from the date of discontinuation of hedge accounting are recognized in full in other comprehensive income.

b. 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 the profit and loss account.

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 the profit and loss account. .

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 there 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 in the profit and loss account for the current period.

2.16. Inventory

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

2.17. Other receivables

Trade receivables are recognized and carried at original invoice amounts less an allowance for expected credit losses.

In accordance with IFRS 9, the Bank adopted a simplified approach to recognizing expected credit losses with respect to trade receivables, contract assets and other settlements with contractors.

With regard to commercial counterparties, the Bank does not have rational and documentable information available without excessive costs and efforts that are needed to assess expected credit losses at the level of a particular counterparty.

In order to determine the level of allowances for expected credit losses on trade receivables, the Bank groups instruments based on their characteristics. This characteristic is based on the analysis of:

- type of receivables,
- nature/type of client,
- degree of receivables being overdue.

In the measurement of allowances for expected losses the Bank includes:

- the probability of the debtor's failure to pay due amounts,
- rational information that is available as at the reporting date, without excessive costs and efforts, regarding past events, current conditions and expectations regarding future economic conditions and behavior of individual debtors.

For the above items, the Bank always specifies an allowance for expected losses in the amount equal to the expected losses throughout the whole life.

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 related assets, as fixed assets or current assets, respectively. As a non-monetary assets, advance payments are not discounted.

2.18. Cash and cash equivalents

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

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

Cash is classified as financial assets measured at amortized cost.

2.19. Liabilities

The Bank recognizes a financial liability in the statement of financial position if and only if it becomes bound by the provisions of the instrument's contract. At the time of initial recognition, the Bank measures a financial

liability at its fair value adjusted for costs directly related to the acquisition/production, excluding components classified as measured at fair value through the profit and loss account.
After the initial recognition, the Bank measures financial liabilities:

- at amortized cost,
- at fair value through profit or loss.

The Bank classifies financial liabilities as measured after initial recognition at amortized cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivative instruments being liabilities, are measured after initial recognition at fair value,
- financial liabilities arising from the transfer of a financial asset that is ineligible to cease to be recognized, or when the approach resulting from the retention of the exposure applies,
- financial guarantee contracts. After initial recognition, the issuer of such a contract (in subsequent periods) measures it at the higher of the following values: (i) the amount of the allowance for expected credit losses and (ii) the amount initially recognized, if appropriate, less the accumulated amount of revenue recognized in accordance with IFRS 15,
- commitment to grant a loan with an interest rate below the market interest rate. The issuer of such a commitment in subsequent periods measures it at the higher of the following values: the amount of the allowance for expected credit losses and the amount initially recognized, if appropriate, less the accumulated amount of revenue recognized in accordance with IFRS 15,
- a contingent consideration recognized by the acquirer as part of a business combination to which IFRS 3 applies. Such contingent payment is measured at fair value in subsequent periods, and the changes are recognized in profit or loss.

The Bank measures at amortized cost, in particular, amounts due to banks, amounts due to customers, loans and advances received, issued debt financial instruments and subordinated loans.

Financial liabilities are measured at fair value through profit or loss if they were 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:

- 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
- liabilities are part of a group of financial liabilities or a group of financial liabilities and financial assets that are managed and assessed based on fair value, in accordance with a documented risk management strategy; or
- financial liabilities contain embedded derivatives that should be recognized separately.

Financial liabilities are measured at fair value, taking into account their market value as at the balance sheet date, excluding selling costs. Changes in the fair value of these instruments are recognized in profit or loss as financial income or costs. As at 31 December 2018, no financial liabilities have been designated as measured at fair value through profit or loss.

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

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

Other non-financial liabilities include, in particular, the obligations to the tax office for tax on goods and services, corporate income tax 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.

The Bank does not reclassify any financial liabilities.

2.20. Provisions

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

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

2.21. Retirement benefits and other employee 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.

In accordance with the provisions of CRD IV 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. In 2018, the Bank introduced a remuneration scheme based on own shares. For this purpose, the Bank purchased a pool of 99,751 shares from the main shareholder at the nominal value of kPLN 1,126.

The Bank recognized the cost of the scheme in accordance with IAS 19, mainly due to the over-the-counter nature of stock trading and settlement based on the book value (instead of the fair value) of the shares. In addition, guided by the principle of economic content prevailing over the legal form of the operation, the Bank decided that the restrictions on the disposal of shares in the agreement with employees result in the actual lack of change in the ownership of the shares.

2.22. Equity

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

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

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

In 2018, the Bank purchased its own shares from a majority shareholder. Their value expressed in the purchase price was included in the equity item.

2.23. Revenues and costs

Revenues are 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 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 other financial assets. 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 future cash flows made until the financial instrument expires, to the gross value of the asset or the amortized cost of the financial liability.
The interest accrued on receivables for which impairment was recognized is included in interest income. The interest is calculated according to the effective interest rate used to discount future cash flows estimated for the purposes of measuring impairment, in the part that can be recovered.

b. Commissions

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 2.23e.

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. Revenue from contracts with customers

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.
Revenues from the sale of goods and products and services are presented by the Bank in accordance with IFRS 15. The standard was issued by the IASB on 28 May 2014 and replaces IAS 18 "Revenues", IAS 11

"Construction Contracts" and previous interpretations related to the recognition of revenues. The standard defines the method and time of recognizing revenues in the statement of financial position. It applies to almost all customer contracts, excluding certain specific activities (lease agreements, financial instruments and insurance contracts). The standard additionally specifies the rules for recognizing transactions that have not been governed in detail by existing regulations (e.g. revenues from the provision of services, modifications of contractual terms) and provides more extensive explanations about the recognition of multi-element agreements.

The fundamental principle of the new standard is the recognition of revenue in such a way as to reflect the transfer of goods or services to customers and an amount reflecting the amount of remuneration (i.e. payment) to which the company expects to obtain right in exchange for goods or services.

The introduction of IFRS 15 did not have a material impact on the revenues settlement rules at the Bank.

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.

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

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

- the level of sales of linked products, i.e. the percentage share of financial instruments with insurance coverage to the number of agreements relating to financial instruments in the portfolio of the Bank,
- the average annual rates of individual financial instruments in the portfolio of the Bank by products with and without insurance coverage,
- the possibility to accede to insurance without a financial instrument,
- in the absence of the requirement for the customer to conclude an insurance contract to a purchased financial instrument – the number of similar terms and conditions of insurance contracts in other insurance companies than that whose products are offered by the Bank jointly with a financial instrument (a percentage share in the entire loan portfolio – by financial instruments in accordance with the product offer

of the Bank),

- the number of withdrawals and the amount of returned commissions – by financial instruments in accordance with the product offer of the Bank, insurance products and insurance classes,
- the number of insurance contracts continued after early loan repayment, along with information about credit products with which they were linked;
- the scope of activities performed for the insurer during the term of the insurance contract;
- the effects of the analysis of management reports on the performance of individual financial instruments in accordance with the product offer of the Bank, banking services.

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

Accounting treatment of bancassurance costs and revenues for linked transactions

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

- Remuneration for services rendered at the time of signing of the insurance policy – in accordance with IFRS 15, 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.

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

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

2.24. Taxes

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 laws legally or substantively applicable at the balance sheet date. The corporate income tax basis is calculated based on regulations of the Corporate Income Tax Act.

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.

2.25. 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 section 2.14. The value of impairment in respect of amounts due from banks is presented in note 17, and in respect of amounts due from customers in note 18 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 22.

- **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 23.

NOTES TO THE PROFIT AND LOSS ACCOUNT

3. Interest income

(PLN '000)	2018	2017*
Interest income on assets measured at amortized cost	**843 963**	**836 561**
Income on bank deposits	5 032	8 403
Income on credits and loans for customer (individuals):	838 276	827 441
- non-impaired loans	796 532	784 162
- impaired loans	41 744	43 279
Credits and loans from banks	655	717
Interest income on financial assets at fair value through other comprehensive income	**30 834**	**30 590**
Income on debt securities	30 834	30 590
Derivative hedge instruments	**(933)**	**(856)**
TOTAL	**873 864**	**866 295**

**transformed data*

4. Interest expense

(PLN '000)	2018	2017*
Interest expense calculated using the effective interest rate method, of which:	**201 972**	**203 986**
Cost of liabilities to banks and financial institutions:	100 433	105 196
- Banks	94 651	100 272
- Financial institutions	5 782	4 924
Cost of liabilities to customers:	80 931	83 364
- Individuals	80 931	83 364
Costs of loans extended to customers	4	3
Costs of amounts due to debt securities issuance	20 604	15 423
Derivative hedge instruments	**2 039**	**139**
TOTAL	**204 011**	**204 125**

**transformed data*

5. Commission income

(PLN '000)	2018	2017*
Commission income on sale of insurance	37 426	49 900
Commissions for transactions on customer accounts	21 904	17 395
Commissions for payment and credit card servicing	15 934	14 072
Fees and commissions related to loans granted	7 637	8 433
Other commissions	4 052	2 594
TOTAL	**86 953**	**92 394**

**transformed data*

6. Fee and commission expense

(PLN '000)	2018	2017*
Credit intermediation commissions	12 911	10 873
Commissions for payment and credit card servicing	26 744	28 122
Expense on insurance sale	552	1 009
Other fees and commissions	2 012	1 805
TOTAL	**42 219**	**41 809**

**transformed data*

7. Result on modification

(PLN '000)	2018	2017*
Result on modification	(3 251)	-
TOTAL	**(3 251)**	**-**

**transformed data*

The item includes the result from non-material modifications, calculated in accordance with IFRS 9 for the portfolio of loans and receivables from customers, classified as financial assets measured at amortized cost. The Bank did not identify any material modifications in 2018.

The value of the portfolio for which the Bank recognized immaterial modifications

(PLN '000)	2018
Value of financial assets before modification	
Gross carrying amount	209 269
Allowances for expected credit losses	(36 324)
Net carrying amount	172 945
Result on modification	**(3 251)**
Net carrying amount including modifications	**169 694**

8. Net income on financial operations

(PLN '000)	2018	2017*
Derivative hedge instruments, cash flows hedging	(100)	33
Derivative hedge instruments, fair value hedging	(9 932)	(1 780)
Dividends received	88	77
Other	233	142
TOTAL	**(9 711)**	**(1 528)**

**transformed data*

9. Foreign exchange result

(PLN '000)	2018	2017*
Foreign exchange income	229 203	152 475
Foreign exchange costs	(223 920)	(148 387)
TOTAL	**5 283**	**4 088**

**transformed data*

The income and expense on FX positions were affected by the repayments of mortgage products denominated in CHF and its funding sources continued in 2018, as well as by the settlement of invoices. In 2018, the Bank also developed an offer in the scope of servicing foreign currency accounts and executing foreign currency payments at the clients' request. Currency risk management is described in note 42.

10. Other operating income

(PLN '000)	2018	2017*
Income on collection fees	15 135	15 726
Recovered receivables written off the balance sheet**	15 845	17 608
Income on reinvoices to franchisees	2 879	3 254
Income on management of sold receivables	7 707	7 674

Release of provisions for liquidation of branches	491	252
Release of provisions for expected losses	1 016	490
Release of provisions for legal claims	-	125
Other sales income	772	145
Other	5 143	2 120
TOTAL	**48 988**	**47 394**

*****_transformed data_
**including the income on the sale of credit receivables of the Bank in the amount of MPLN 10 in 2018 (MPLN 9.4 in 2017).

In 2018, the Bank sold NPL portfolios to the principal nominal value of mPLN 102.6.

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

In Q4 2018, the Bank discontinued operations in the area of management of securitized claims of securitization funds. In 2018, the Bank generated revenues from these operations in the amount of kPLN 7,707, and the costs incurred in connection with these operations amounted to kPLN 993. In 2017, revenues on servicing claims of securitization funds amounted to kPLN 7,674, and the costs incurred in connection with this activity amounted to kPLN 1,814.

11. Other operating expense

(PLN '000)	2018	2017*
Related to liquidation of fixed assets, intangible assets and assets held for sale	888	692
Collection and court costs	4 586	5 968
Provisions for expected losses due to concluded agreements	921	225
Provisions for liquidation of branches	-	743
Other provisions	-	174
Franchise costs	1 104	1 341
Complaint costs	773	609
Costs due to management of sold receivables	993	1 814
Costs on disposal of fixed assets, intangible assets and assets held for sale	-	23
Other	2 170	7 378
TOTAL	**11 435**	**18 967**

**transformed data*

12. Operating expenditure

(in PLN '000)	2018	2017*
Employee costs	**229 254**	**221 111**
Remunerations	188 483	179 372
Social insurance	31 633	30 890
Other costs of employee benefits	9 138	10 849
Material costs	**205 837**	**229 511**
Building rental costs	53 641	58 985
Promotion and advertising services	24 962	32 479
Cost of consultancy and specialized services	20 489	20 467
IT and telecommunications services	26 616	27 164
Cost of purchase of materials	7 585	10 179
Contribution and payments to the Bank Guarantee Fund	15 877	14 401

Postal fees	4 964	5 136
Taxes and charges	33 298	35 860
- including the banking tax	30 656	29 343
Property insurance costs	2 736	3 157
Vehicle fleet management costs	5 816	6 600
Other material costs	9 853	15 083
Total	**435 091**	**450 622**

**transformed data*

13. Depreciation

(PLN '000)	2018	2017*
Depreciation of tangible fixed assets	20 729	20 501
Depreciation of intangible assets	17 548	15 753
TOTAL	**38 277**	**36 254**

**transformed data*

14. Result on allowances for expected credit losses

(in PLN '000)	2018	2017*
Allowances created for expected credit losses	**(178 715)**	**(166 358)**
Individuals	(178 713)	(166 357)
- allowances for non-impaired receivables	(32 834)	(9 674)
Mortgage loan	(5 131)	(2 948)
Credit card	(661)	(85)
Cash loan	(23 961)	(4 851)
Other credits and loans	(3 081)	(1 790)
- allowances for impaired receivables	(145 469)	(156 683)
Mortgage loan	(9 585)	(18 794)
Credit card	(1 137)	(2 395)
Cash loan	(124 716)	(123 780)
Other credits and loans	(10 031)	(11 714)
- allowance for off-balance sheet exposures	(410)	-
Banks	(2)	(1)
allowance for non-impaired receivables	(2)	(1)
Released allowances for expected credit losses	**42 406**	**44 454**
Individuals	42 404	42 346
- allowances for non-impaired receivables	30 637	23 959
Mortgage loan	15 865	10 322
Credit card	624	256
Cash loan	10 873	10 896
Other credits and loans	3 275	2 485
- allowances for impaired receivables	11 038	18 387
Mortgage loan	3 317	9 050
Credit card	729	608
Cash loan	4 146	8 667
Other credits and loans	2 846	62
- allowance for off-balance sheet exposures	729	
Banks	2	8
- allowances for non-impaired receivables	2	8
Release of provision for potential losses on sale of the loan portfolio	-	2 100
NET IMPAIRMENT ALLOWANCE	**(136 309)**	**(121 904)**

**transformed data*

15. 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. The tax base also includes tax revenues and tax deductible costs which did not constitute the basis for calculating the gross profit under IFRS for a given period.

(PLN '000)	2018	2017*
Income tax charged to profit/loss for a given financial year		
- current portion	(38 378)	(33 459)
- current portion (income tax adjustment of previous years)	-	1 422
- change in (net) deferred tax asset	(6 238)	(3 206)
- adjustment resulting from the review of deferred tax assets	(1 608)	-
- change in (net) deferred tax asset (tax adjustment of previous years)	-	(434)
TOTAL	**(46 224)**	**(35 677)**

transformed data

The change in deferred tax assets results mainly from tax ineffectiveness related to the time-barred/fraudulent loans portfolio, both sold in 2018 and covered by assets revaluation (more information in note 23).

Determination of the effective tax rate

(PLN '000)	2018	2017*
Income tax calculation – current portion		
Profit before tax	149 307	136 848
Income tax at the statutory rate of 19%	**(28 368)**	**(26 001)**
- State Fund for Rehabilitation of Disabled Persons (PFRON)	(449)	(425)
- non-deductible contributions to organizations	(3 062)	(2 766)
- non-deductible credit allowance costs	(178)	(948)
- loss on the sale of claims in the part that is not tax-deductible	(6 679)	-
- adjustment resulting from the assets inventory for deferred tax	(1 608)	-
- tax on certain financial institutions	(5 824)	(5 577)
- other	(56)	(950)
Income tax charged to profit/loss for a given financial year	**(46 224)**	**(36 667)**
Effective tax rate %	**30,96**	**26,79**

**transformed data*

In 2018, extensive changes in income tax regulations took place, while only a part of them had a direct impact on the Bank's tax position. Changes covered the principles of recognizing credit losses and losses on the sale of credit claims to securitization funds in tax deductible costs. Financial institutions were also affected by the introduction of a limit on the deduction of expenses for intangible services purchased from affiliated entities and the elimination of the limit on the deduction of funding costs (the so-called inadequate capitalization).

NOTES TO THE STATEMENT OF FINANCIAL POSITION

16. Cash and deposits in the Central Bank

(PLN '000)	31.12.2018	31.12.2017*
Cash	49 165	59 940
Funds on accounts in Central Bank	197 982	103 297
TOTAL	**247 152**	**163 237**

**transformed data*

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 2018, the Bank was obliged to maintain an average reserve of kPLN 248,164. In the reporting period covering the 31st of December 2017, the Bank maintained a reserve of kPLN 248,539.

17. Amounts due from banks

Structure of amounts due from banks by type of product

(PLN '000)	31.12.2018	31.12.2017*
Current accounts	58 482	27 895
Term deposits	71 134	71 142
Other receivables	-	-
Gross total	**129 616**	**99 037**
Allowance for expected credit losses	**(2)**	**(12)**
TOTAL	**129 614**	**99 025**

**transformed data*

In 2018 and 2017 no impairment loss on receivables from banks has been recognized.

Structure of amounts due from banks by risk groups

(PLN '000)	31.12.2018	31.12.2017*
Non-impaired receivables	129 616	99 037
Allowance for expected credit losses**	(2)	(12)
TOTAL	**129 614**	**99 025**

***transformed data*

***All amounts due from banks in 2018 were classified to Stage 1. The Bank did not identify any amounts due subject to impairment since the initial recognition.*

Change in allowances for expected credit losses

(PLN '000)	
As at 1 January 2018 *(in PLN '000)*	(12)
IFRS 9 adjustment	10
As at 1 January 2018 transformed data	**(2)**
Allowance for expected credit losses	(2)
Used impairments	-
Release of allowances for expected credit losses	2
As at 31 December 2018 *(in PLN '000)*	**(2)**

The change in the allowances for expected credit losses for amounts due to banks by segments is presented in the table below.

(PLN '000)	Stage 1	Stage 2	Stage 3	Total
Opening balance	**2**	**-**	**-**	**2**
Additions due to increase and acquisition	-	-	-	-
Disposals due to discontinuation of recognition	-	-	-	-
Changes resulting from the change in credit risk	-	-	-	-
Changes due to modification without ceasing recognition	-	-	-	-
Decrease in allowances due to write-downs	-	-	-	-
Other adjustments	-	-	-	-
Closing balance	**2**	**-**	**-**	**2**

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 *(in PLN '000)**	**(12)**

**transformed data*

Structure of amounts due from banks by maturity from the balance-sheet date (face value)

(PLN '000)	31.12.2018	31.12.2017*
up to 30 days	58 482	28 040
30 to 90 days	169	24
90 to 180 days	-	-
180 days to 1 year	20 000	-
1 to 3 years	50 000	70 000
3 to 5 years	-	-
over 5 years	-	-
TOTAL	**128 651**	**98 064**

**transformed data*

18. Customer loans

Credits and loans to customers measured at amortized cost

(PLN '000)	31.12.2018	31.12.2017*
Gross value		
Non-impaired receivables	**11 929 643**	**11 310 737**
Impaired receivables	1 234 404	1 076 585
- including individually measured	192 546	215 580
- including portfolio measured	1 041 858	861 005
Gross total	**13 164 047**	**12 387 322**
Impairments	(968 153)	(656 021))
allowances for expected credit losses for non-impaired receivables	(161 726)	(42 152)
allowances for expected credit losses for impaired receivables	(806 427)	(613 869)
- including exposures measured individually	(53 017)	(71 384)
- including exposures measured on a portfolio basis	(753 410)	(542 485)
Total net carrying amount	**12 195 894**	**11 731 301**

**transformed data*

The quality of the portfolio of credits and loans measured at amortized cost broken down by segments is presented in the table below.

(PLN '000)	31.12.2018
Gross carrying amount	
Stage 1	10 805 469
Stage 2	1 124 174
Stage 3	1 234 404
Gross total	**13 164 047**
Allowances for expected credit losses	
Stage 1	44 349
Stage 2	117 377
Stage 3	806 427
Total allowances for expected credit losses	**968 153**
net carrying amount	
Stage 1	10 761 120
Stage 2	1 006 797
Stage 3	427 977
Total net carrying amount	**12 195 894**

Product structure of amounts due from customers

(PLN '000)	31.12.2018	31.12.2017*
Gross value	**13 164 047**	**12 387 322**
Non-impaired receivables	**11 929 643**	**11 310 737**
Mortgage loan	6 234 237	6 150 498
Credit card	88 875	88 239
Cash loan	5 165 911	4 825 303
Other credits and loans	440 620	246 697
Impaired receivables	**1 234 404**	**1 076 585**
Mortgage loan	192 546	215 580
Credit card	19 188	20 713
Cash loan	972 492	801 074
Other credits and loans	50 178	39 218
Allowances for expected credit losses	**(968 153)**	**(656 021)**
Allowances for expected credit losses for non-impaired receivables	**(161 726)**	**(42 152)**

Mortgage loan	(23 039)	(5 142)
Credit card	(2 122)	(359)
Cash loan	(130 501)	(35 076)
Other credits and loans	(6 064)	(1 575)
Allowances for expected credit losses for impaired receivables	**(806 427)**	**(613 869)**
Mortgage loan	(53 017)	(71 384)
Credit card	(13 101)	(13 553)
Cash loan	(696 636)	(491 223)
Other credits and loans	(43 673)	(37 709)
Total net carrying amount	**12 195 894**	**11 731 301**

**transformed data*

Structure of receivables by customer types

(in PLN '000)	**31.12.2018**	**31.12.2017***
Gross value	**13 164 047**	**12 387 322**
Individuals	13 164 047	12 387 322
Allowances for expected credit losses	**(968 153)**	**(656 021)**
Individuals	(968 153)	(656 021)
Net receivables	**12 195 894**	**11 731 301**

**transformed data*

The change in the gross carrying amount of credits and loans to customers by segment is presented in the table below.

(PLN '000)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance	**10 350 041**	**960 784**	**1 239 313**	**12 550 138**
Transfer to Stage 1	177 664	(160 079)	(17 585)	-
Transfer to Stage 2	(435 766)	464 825	(29 059)	-
Transfer to Stage 3	(92 426)	(142 379)	234 805	-
Changes due to granting and purchase	3 336 496	2 886	20 869	3 360 251
Changes due to sale	-	-	(29 071)	(29 071)
Changes due to write-downs and remittance	-	-	(154 747)	(154 747)
Other changes	(2 530 540)	(1 863)	(30 121)	(2 562 524)
Closing balance	**10 805 469**	**1 124 174**	**1 234 404**	**13 164 047**

Allowances for expected credit losses foe amounts due from banks

As at 1 January 2018 (in PLN '000)	**(656 021)**
IFRS 9 adjustment 1*	(162 797)
IFRS 9 adjustment 2**	(117 311)
As at 1 January 2018 transformed data	**(936 129)**
Impairment of loans and credits extended to customers	(178 303)
Amounts charged to provisions	99 477
Reversal of impairment losses	41 675
Adjustment of allowances for expected losses resulting from impairment interest adjustment	5 127
As at 31 December 2018 (in PLN '000)	**(968 153)**

******adjustment resulting from a change in the presentation of the gross value of balance sheet exposures, described in note 2.3*

*** adjustment resulting from a change in the methodology for estimating allowances for expected credit losses, in accordance with IFRS 9, described in note 2.3*

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 31.12.2017 (in PLN '000*)	**(656 021)**

**transformed data*

The change in allowances for expected credit losses for credits and loans from customers by segments is presented in the table below.

(PLN '000)	Stage 1	Stage 2	Stage 3	Total
Opening balance	**48 476**	**111 053**	**776 600**	**936 129**
Transfer to Stage 1	17 163	(16 967)	(196)	-
Transfer to Stage 2	(289 924)	295 139	(5 215)	-
Transfer to Stage 3	(5 752)	(108 660)	114 412	-
Changes due to granting and purchase	28 704	517	4 894	34 115
Changes in the credit risk of the portfolio	245 530	(164 676)	48 309	(129 163)
Changes due to sale	-	-	(29 071)	(29 071)
Changes due to write-downs and remittance	-	-	(109 354)	(109 354)
Other adjustments	152	971	6 048	7 171
Closing balance	**44 349**	**117 377**	**806 427**	**968 153**

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

(in PLN '000)	31.12.2018	31.12.2017*
up to 30 days	909 130	823 225
30 to 90 days	332 640	293 687
90 to 180 days	455 856	392 716
180 days to 1 year	795 072	717 087
1 to 2 years	1 372 945	1 271 918
2 to 5 years	3 214 966	3 009 627
over 5 years	6 271 941	6 228 292
TOTAL	**13 352 550**	**12 736 552**

**transformed data*

19. Financial assets measured at fair value through other comprehensive income

(PLN '000)	31.12.2018	31.12.2017*
Debt securities**:	1 552 738	1 484 659
- treasury bonds	1 321 600	1 351 395
- money bills	139 984	45 818
- other bonds	91 154	87 446
Total	**1 552 738**	**1 484 659**

**transformed data*
***In the financial statements for the year ended on 31 December 2017, these items were presented in the available-for-sale financial assets portfolio*

Structure of securities by maturity from the balance-sheet date

Maturity dates (*PLN '000)*	**31.12.2018**	**31.12.2017***
Up to 1 month	240 828	45 818
From 1 to 3 months	-	-
From 3 to 6 months	19 950	62 010
From 6 months to 1 year	92 453	354 893
1 to 2 years	131 877	101 237
2 to 5 years	712 382	833 255
over 5 years	355 248	87 446
Total	**1 552 738**	**1 484 659**

**transformed data*

20. Financial assets measured at fair value through profit or loss

(PLN '000)	**31.12.2018**	**31.12.2017***
Equity instruments:	13 950	-
Total	**13 950**	**-**

**transformed data*

The equity securities item includes Visa Inc. shares. In the Bank's financial statements for the year ended on 31 December 2017, this item was recognized in the category of financial assets available for sale in the amount of kPLN 9,369. As at 31 December 2018, the Bank holds 2,354 shares of Visa (series C shares). The effects of the measurement of these instruments are presented in the statement of comprehensive income under the "Financial instruments at fair value through profit and loss" item.

21. 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 2018	**43**	**39 844**	**82 273**	**42 780**	**10 980**	**11 595**	**187 515**
Additions due to:	-	-	11 846	11 355	890	6 770	30 861
purchase	-	-	194	8 084	480	6 360	15 118
acceptance for use	-	-	11 652	3 271	0	-	14 923
reclassification between groups	-	-	-	-	410	410	820
Disposals due to:	-	-	6 295	5 833	1 485	14 605	28 218
release for use	-	-	-	3 271	-	11 652	14 923
reclassification between groups	-	-	410	-	-	2 498	2 908
liquidation	-	-	5 885	2 562	1 485	-	9 932
release of provisions	-	-	-	-	-	455	455
Gross value as at 31 December 2018	**43**	**39 844**	**87 824**	**48 302**	**10 385**	**3 760**	**190 158**
Depreciation as at 1 January 2018	**43**	**-**	**54 584**	**30 886**	**9 351**	**-**	**94 864**
Additions	-	-	11 070	5 771	708	-	17 549
- depreciation	-	-	11 070	5 771	708	-	17 549
- reclassification between groups	-	-	-	-	-	-	-
Disposals	-	-	5 886	2 562	1 486	-	9 934
- including reclassification between groups	-	-	-	-	-	-	-
Depreciation as at 31 December 2018	**43**	**-**	**59 768**	**34 095**	**8 573**	**-**	**102 479**
Impairments 01.01.2018	**-**	**39 844**	**-**	**-**	**-**	**-**	**39 844**
Impairments 31.12.2018	**-**	**39 844**	**-**	**-**	**-**	**-**	**39 844**
Net value as at 1 January 2018	**-**	**-**	**27 689**	**11 894**	**1 629**	**11 595**	**52 807**
Net value as at 31 December 2018	**-**	**-**	**28 056**	**14 207**	**1 812**	**3 760**	**47 835**

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 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 as at 31.12.2017*	**-**	**-**	**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.
**transformed data*

22. 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 2018	**108 591**	**71 108**	**10 586**	**56**	**51 515**	**8 199**	**-**	**250 055**
Additions due to:	3 866	9 561	866	-	2 415	4 220	-	20 928
purchase	2 560	1 369	60	-	2 407	1 639	-	8 035
acceptance for use	1 306	8 192	806	-	8	-	-	10 312
reclassification between groups	-	-	-	-	-	2 581	-	2 581
Disposals due to:	7 792	14 763	10	-	24 760	12 085	-	59 410
sale	-	140	-	-	21 067	-	-	21 207
liquidation	7 792	14 623	10	-	3 693	12	-	26 130
release for use	-	-	-	-	-	10 312	-	10 312
reclassification between groups	-	-	-	-	-	493	-	493
release of provisions	-	-	-	-	-	1 268	-	1 268
Gross value as at 31 December 2018	**104 665**	**65 906**	**11 442**	**56**	**29 170**	**334**	**-**	**211 573**
Depreciation as at 1 January 2018	**84 078**	**43 895**	**9 621**	**56**	**47 116**	**-**	**-**	**184 766**
Additions	8 553	10 281	272	-	1 622	-	-	20 728
depreciation	8 553	10 281	272	-	1 622	-	-	20 728
other additions	-	-	-	-	-	-	-	-
Disposals due to:	7 122	14 744	4	-	24 265	-	-	46 135
sale	-	140	-	-	20 754-	-	-	20 894
liquidation	7 122	14 604	4	-	3 511	-	-	25 241
other disposals	-	-	-	-	-	-	-	-
Depreciation as at 31 December 2018	**85 509**	**39 432**	**9 889**	**56**	**24 473**	**-**	**-**	**159 359**
Impairment loss as at 1 January 2018	**3 055**	**-**	**-**	**-**	**--**	**-**	**-**	**3 055**
Additions	244	**-**	**-**	**-**	**-**	**-**	**-**	**244**
Disposals	3 299	**-**	**-**	**-**	**-**	**-**	**-**	**3 299**
Impairment loss as at 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net value as at 1 January 2018	**21 458**	**27 213**	**965**	**-**	**4 399**	**8 199**	**0**	**62 234**
Net value as at 31 December 2018	**19 156**	**26 474**	**1 553**	**-**	**4 697**	**334**	**-**	**52 214**

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	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 as at 31.12.2017*	**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.
**transformed data*

23. Deferred tax assets

	31.12.2018		31.12.2017*	
(PLN '000)	**Base**	**Asset**	**Base**	**Asset**
Tax rate		**19%**		**19%**
Allowances for credit exposures	496 606	94 355	341 594	64 903
Accrued interest to be paid	45 061	8 562	42 954	8 161
Deferred fee and commission income	421 556	80 096	411 683	78 220
Provisions and deferred insurance income	23 672	4 498	24 846	4 721
Valuation of hedge accounting - ineffective part	9 905	1 882	4 773	907
Accrued expenses	72 879	13 847	79 325	15 072
Impairment losses on other receivables	5 070	963	6 388	1 214
Impairment losses on fixed assets	-	-	3 055	580
Tax loss	-	-	-	-
Interest accrued on receivables	(234 198)	(44 498)	(63 994)	(12 159)
Interest accrued and discount on securities	(17 055)	(3 241)	(14 494)	(2 754)
Intangible assets generated internally	(11 646)	(2 213)	(11 893)	(2 260)
Book amortization (tangible assets and intangible assets)	(10 014)	(1 903)	(6 123)	(1 163)
Discount on the deferred consideration from Visa Inc	34	7	180	34
Accrued income	(2 453)	(466)	(2 453)	(466)
Valuation of securities	(7 781)	(1 478)	-	-
Total – Items to profit and loss	**791 636**	**150 411**	**815 841**	**155 010**
Valuation of hedge accounting – effective part	(4 935)	(938)	(9 676)	(1 838)
Valuation of securities	(6 261)	(1 189)	(8 880)	(1 687)
Allowances for credit exposures	119 165	22 641	0	0
Other**	-	-	20 294	3 856
Total – Items to revaluation capital	**107 969**	**20 514**	**1 738**	**330)**
Total	**899 605**	**170 925**	**817 579**	**155 340**

**transformed data*
***costs related to the adjustment of employee benefits charged to retained earnings (described in note 2.4)*

The Bank analyzes the recoverability of the deferred tax assets and in particular the application of allowances for credit exposures. During 2018, the Bank identified a high probability that the deferred tax asset would not be realized in full in connection with the identified cases of limitation of credit claims and fraudulent loans (frauds), on which allowances for credit losses originally formed the basis for the creation of the asset. According to the predominant and well-established case law, limited claims as well as the frauds do not constitute tax deductible costs in any form. As a result, the value of the deferred tax asset was adjusted by (MPLN 1.6).

24. Other assets

Structure of other assets

(PLN '000)	31.12.2018	31.12.2017*
Accruals, including:	12 597	**11 404**
- rents paid in advance	300	366
- insurances paid	134	1 080
- IT services	3 832	3 326
- materials purchased but not released for use	3 338	4 620
- other	4 993	2 012
Other assets, of which:	35 700	**25 086**
- payment card settlements	14 143	4 652
- receivables from clients and employees	9 610	6 973

- advances to suppliers and employees	1 339	1 699
- insurance receivables	7 988	8 506
- loan receivables	1 470	429
- VAT receivables	860	1 311
- other assets	290	1 516
TOTAL	**48 297**	**36 490**
including financial assets**	**35 410**	**23 570**

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

25. Derivative instruments in hedge accounting

(PLN '000)	31.12.2018	31.12.2017*
Cash flow hedge instruments	-	367
Fair value hedge instruments	-	5 171
TOTAL	**-**	**5 538**

**transformed data*

26. Amounts due to banks and financial institutions

Amounts due to other banks and financial institutions – structure by products

(PLN '000)	31.12.2018	31.12.2017*
Current accounts	15 651	6 950
Deposits	245 489	251 370
Loans	3 865 446	3 872 309
Other	24	
TOTAL	**4 126 610**	**4 130 629**

**transformed data*

Amounts due to banks and financial institutions – structure by entities

(PLN '000)	31.12.2018	31.12.2017*
Banks	**3 867 319**	**3 874 153**
Current accounts	1 849	1 494
Deposits	-	350
Loans	3 865 446	3 872 309
Other	24	-
Financial institutions	259 291	256 476
Current accounts	13 802	5 456
Deposits	245 489	251 020
TOTAL	**4 126 610**	**4 130 629**

**transformed data*

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

(PLN '000)	31.12.2018	31.12.2017*
Up to 1 month	34 759	7 300
Over 1 month to 3 months	53 422	156 180
Over 3 months to 6 months	116 665	53 770
Over 6 months to 1 year	453 713	523 700
Over 1 year to 5 years	1 284 346	1 372 708
Over 5 years	2 170 656	1 999 408
TOTAL	**4 113 561**	**4 113 066**

**transformed data*

27. Amounts due to customers

(PLN '000)	31.12.2018	31.12.2017*
Current accounts	4 311 851	3 989 963
Fixed-term deposits	3 429 779	2 826 815
TOTAL	**7 741 630**	**6 816 778**

**transformed data*

Amounts due to customers – structure by product

(PLN '000)	31.12.2018	31.12.2017*
Individuals	**7 738 266**	**6 814 801**
Current accounts	4 308 487	3 987 986
Fixed-term deposits	3 429 779	2 826 815
Entrepreneurs	**3 364**	**1 977**
Current accounts	3 364	1 977
TOTAL	**7 741 630**	**6 816 778**

**transformed data*

Liabilities by maturity (face value)

(PLN '000)	31.12.2018	31.12.2017*
Up to 1 month	4 999 793	4 423 119
Over 1 month to 3 months	1 281 474	871 470
Over 3 months to 6 months	461 312	520 941
Over 6 months to 1 year	497 255	576 891
Over 1 year to 5 years	471 313	400 809
TOTAL	**7 711 147**	**6 793 230**

**transformed data*

28. Amounts due to debt securities

(PLN '000)	31.12.2018	31.12.2017*
Amounts due to debt securities issuance		
- Bonds issued by the Bank	500 171	740 659
TOTAL	**500 171**	**740 659**

**transformed data*

As at 31 December 2018, the Bank has liabilities under the following own bond issues:

- bonds issued on 28 June 2016 as part of the Bond Issuance Program. These are EBK B 28122019 series securities to the total face value of mPLN 250. The nominal value of one bond is kPLN 100, and the issue price equals the nominal value of the bonds. The maturity is 3.5 years, and the redemption date falls on December 28th, 2019. The bonds have been offered under public offering. The bonds bear variable interest, payable semi-annually based on a six-month WIBOR plus a margin of 1.2 percent per annum. The bonds are not traded on the regulated market or alternative trading market. On the issue date the bonds were registered with the National Securities Depository and have the ISIN code: PLEURBK00025.
- Bonds issued on 1 December 2017 as part of the Bond Issuance Program. A. These are EBK B 28122019 series securities to the total face 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 2018 amounted to mPLN 500.

On 20 November 2018, the Bank timely redeemed EBK A 20112018 series bonds to the total face value of mPLN 240 (ISIN PLEURBK00017).

29. Provisions

(in PLN '000)	**Provision for legal claims**	**Provision for future losses due to concluded agreements**	**Provision for retirement severance**	**Allowance for off-balance sheet exposures**	**Total provisions**
As at 1 January 2018	**-**	**1 726**	**438**	**1 067**	**3 231**
Additions	-	921	-	410	1 331
Use	-	(1 000)	-		(1 000)
Release	-	(1 507)	-	(729)	(2 236)
As at 31 December 2018	**-**	**140**	**438**	**748**	**1 326**

At the end of 2018, the provision for potential claims under contracts (provision for claims for the refund of the price related to the warranty for sold portfolios of loan claims) was at the level of mPLN 0.1 (in 2017 this provision was at mPLN 0.2).

The change in provisions for off-balance sheet liabilities is presented in the table below*.

(PLN '000)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance	**140**	**927**	**-**	**1 067**
Additions due to increase and acquisition	14	7		21
Disposals due to discontinuation of recognition	(59)	(110)	-	(169)
Changes resulting from the change in credit risk	(24)	(147)	-	(171)
Changes due to modification without ceasing recognition	-	-	-	-
Decrease in allowances due to write-downs	-	-	-	-
Other adjustments	-	-	-	-
Closing balance	**71**	**677**	**-**	**748**

**The result on the change in provisions for off-balance sheet liabilities (credit lines granted to customers) in the profit and loss account is recognized in the item of allowances for expected credit losses.*

(in PLN '000)	**Provision for legal claims**	**Provision for future losses due to concluded agreements**	**Provision for retirement severance**	**Total provisions**
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 31.12.2017*	**0**	**1 726**	**438**	**2 164**

**transformed data*

30. Derivative instruments in hedge accounting

(PLN '000)	31.12.2018	31.12.2017*
Cash flow hedge instruments	4 803	-
Fair value hedge instruments	10 076	-
TOTAL	**14 879**	**-**

**transformed data*

31. Other liabilities

(in PLN '000)	31.12.2018	31.12.2017*
Other liabilities, including:	**88 946,0**	**65 164**
- sundry creditors	40 326,0	31 319
- interbank settlements	10 802,0	24 886
- statutory settlements	37 818,0	8 959
Costs to be paid, including:	**74 392,0**	**100 688**
- wages and salaries	21 409,0	15 010
- due to agents' fees	15 249,0	5 659
- management services	9 625,0	8 574
- investments	-	16 022
- holidays	7 717,0	8 001
- rents	1 669,0	3 840
- card fees	4 836,0	2 864
- IT and telecommunications services	2 463,0	6 546
- promotion and advertisement	3 067,0	7 876
- postal services	952,0	957
- consultancy	689,0	1 804
- other costs to be paid	6 716	23 535
Estimated future returns of remuneration for insurance intermediation and income settled over time, of which:	**23 672**	**24 846**
- estimated future returns of remuneration for insurance intermediation	9 861	9 635
- income on insurance intermediation settled over time	13 811	15 211
TOTAL	**187 010**	**190 698**

**transformed data*

32. Subordinated loan

As at 31 December 2018 the Bank had subordinated loans to the nominal value of mPLN 350.

The structure of subordinated debt as at 31 December 2018 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)	31.12.2018	31.12.2017*
Subordinated loan gross amount	**351 529**	**351 565**

**transformed data*

33. 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 2018, Societe Generale Financial Services Holding belonging to the Societe Generale Group, which held 49,769,493 shares and votes at the General Shareholders' Meeting, i.e. 99.79% of all shares and votes, was the only shareholder that held over 5% of the Bank's shares.

Preference shares and limitation of rights associated with shares

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

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

As at 31 December 2017, the Bank did not hold any own shares. In December 2018, the Bank purchased 99 751 shares from the majority shareholder, Societe Generale Financial Services Holding, at the nominal value of kPLN 1,126 for purposes related to the implementation of obligations related to employee management programs. The shares were recognized in the Bank's books in the equity adjusting item at the purchase value of kPLN 2,956.

34. Supplementary capital (funds)

(PLN '000)	**31.12.2018**
As at 1 January 2018	**884 364**
Allocation of profit for previous years	102 837
TOTAL	**987 201**

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

**transformed data*

In 2018, the Bank allocated the entire profit generated for 2017 to supplementary capital.

35. Revaluation reserve

(PLN '000)	**31.12.2018**
As at 1 January 2018	**15 031**
Opening balance adjustment IFRS 9	(2 592)
As at 1 January 2018 transformed data	**12 439**
Net profit (loss) on the revaluation of financial assets measured at fair value through other comprehensive income	700
including deferred tax	(110)
Net profits (losses) on valuation of derivative instruments hedging cash flows	(3 838)
including deferred tax	(901)
TOTAL	**9 301**

In accordance with the principles set out in IFRS 9, the Bank reclassified Visa Inc. shares from financial assets measured at fair value through other comprehensive income to assets measured at fair value through profit or loss. At the time of implementation of the standard, the value of the measurement recognized in the revaluation reserve (kPLN 2,592) has been recognized in the retained earnings item.

(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**

**transformed data*

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

36. Retained earnings

(PLN '000)	31.12.2018
As at 1 January 2018	**-**
Adjustment of transformed data for 2017	(30 329)
Impact of the implementation of IFRS 9 - value adjustment	(96 524)
Impact of the implementation of IFRS – reclassification of equity instruments	2 592
TOTAL	**(124 261)**

In 2018, the Bank adjusted the value of equity due to the recognition of the impact of IFRS 9 (impact described in note 2.3) the retained earnings item and due to the adjustment of remuneration costs relating to previous periods (effect described in note 2.4).

37. Operating lease

Costs and revenues on operating leases – lessor (computer hardware lease)

(PLN '000)	2018	2017*
Operating lease income	57	81
Operating lease expenses	37	55

**transformed data*

Maturity dates of operating leases – lessor (computer hardware lease)

Maturity dates *(in PLN '000)*	31.12.2018	31.12.2017*
Up to 1 year	60	51
1 to 5 years	114	118
Over 5 years	-	-

**transformed data*

Costs and revenues on operating leases – lessee (vehicle lease))

(PLN '000)	**2018**	**2017***
Operating lease expenses (lease payments - rents)	3 797	4 397
Operating lease expenses (lease payments - maintenance service)	1 423	1 531

**transformed data*

Maturity dates of operating leases – lessee (vehicle lease)

Maturity dates ***(in PLN '000)***	**31.12.2018**	**31.12.2017***
Lease payments		
Up to 1 year	2 389	3 161
1 to 5 years	1 239	2 511
Over 5 years	-	-
Maintenance fees		
Up to 1 year	956	1 192
1 to 5 years	520	996
Over 5 years	-	-
Total	5 104	7 860

**transformed data*

Costs and revenues on operating leases – lessee (rents)

(PLN '000)	**2018**	**2017***
Operating lease expenses (rents)	49 583	54 174

**transformed data*

Maturity dates of operating leases – lessee (rents)

Maturity dates ***(in PLN '000)***	**31.12.2018**	**31.12.2017***
Up to 1 year	28 347	25 054
1 to 5 years	78 429	77 611
Over 5 years	-	4 364
TOTAL	**106 776**	**107 029**

**transformed data*

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

38. Risk management at the Bank

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

Pursuant to Article 9(3) of the Banking Act, 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 31 January 2018).

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 regularly updated, describing the distribution of responsibilities according to the Bank's organizational structure, risk management process, tools supporting the risk management process (including the so-called risk appetite), principles of cooperation between units as well as other rules aimed at ensuring the proper operation of the risk management system at the Bank,
- periodic information, acknowledged by the Management Board and passed to the Supervisory Board, which present the types and size of risk in the Bank's operation in a reliable, clear and synthetic way.

Risks at Euro Bank are managed:

- within the risk appetite set by the Management Board and approved by the Supervisory Board,
- in accordance with the principles of 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

Three lines of defense

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 sets the risk appetite and 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. In particular, the Supervisory Board approves the Bank's strategy, risk appetite and the organizational structure adequate to the scale of operations and risks taken.

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,
- Equity risk,
- Bancassurance risk,
- Strategic 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.

39. Credit and counterparty risks management

Credit and counterparty risk is the risk of financial loss incurred due to insolvency of borrowers or counterparties. In granting loans and developing new advanced financing methods, the Bank incurs the risk of the borrower failing to repay the loan or other liability in the agreed period. The Bank is always exposed to this type of risk, irrespective of the form of financing. The risk results mainly from the clients' inability to fulfill their obligations towards the Bank, arising from deterioration in their financial position.

Insolvency risk is assessed by the Bank based on scoring systems.
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 IFRS 9 as well as the provisions of 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 pretenses,
- 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 amount and product type 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. Procedures in this area exist and cover the entire Bank's exposure portfolio. Additionally, the accepted collateral (its value and certainty of use) is subject to ongoing monitoring.

Structure of amounts due from customers by the past-due period

Past-due receivables (total)

Past-due period ***(in PLN '000)***	**Gross value as at 31.12 2018**	**Gross value as at 31.12 2017***
Repaid on a timely basis	11 355 821	10 630 948
1 to 30 days	610 502	749 965
30 to 90 days	168 670	188 422
Total healthy and up to 90 days past due receivables	**12 134 993**	**11 569 335**
90 to 180 days	100 425	82 891
180 days to 1 year	131 550	117 156
1 to 2 years	235 999	182 371
2 to 3 years	195 829	144 952
3 to 5 years	239 268	190 134
Over 5 years	125 983	100 483
Total receivables over 90 days past due	**1 029 054**	817 987
Total	**13 164 047**	**12 387 322**

**transformed data*

Non-impaired past-due receivables

Past-due period ***(in PLN '000)***	**Gross value as at 31.12 2018**	**Gross value as at 31.12 2017***
1 to 30 days	558 763	668 959
30 to 90 days	120 269	128 192
Total receivables up to 90 days past due	**679 032**	**797 151**
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	**679 032**	**797 151**

**transformed data*

Credit collaterals

(PLN '000)	**31.12. 2018**	**31.12. 2017**
Fair value of credit collaterals	9 901 627	9 524 944

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

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

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

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

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

Debt restructuring

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

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

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

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

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

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

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

Restructured loans, in particulars such, 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 debts by risk groups (gross value)

(PLN '000)	**31.12.2018**	**31.12.2017***
Stage1 receivables	-	39 232
Stage2 receivables	36 838	
Stage3 receivables	280 382	271 347
Total gross value	**317 220**	**310 579**
Allowances for expected credit losses	**(164 724)**	**(113 257)**
Stage1 allowances	-	(151)
Stage2 allowances	(3 871)	
Stage3 allowances	(160 853)	(113 106)
Net receivables	**152 496**	**197 322**

**transformed data*

Impact on interest income - restructured receivables

(PLN '000)	2018	2017*
Non-impaired loans	4 489	4 053
Impaired loans	11 282	14 966
TOTAL	**15 771**	**19 019**

**transformed data*

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

Region	31.12.2018 (%)	31.12.2017 (%)
Dolnośląskie	9	9
Kujawsko-Pomorskie	6	6
Lubelskie	3	3
Lubuskie	3	2
Łódzkie	8	7
Małopolskie	6	6
Mazowieckie	16	16
Opolskie	2	2
Podkarpackie	3	3
Podlaskie	2	2
Pomorskie	8	8
Śląskie	15	16
Świętokrzyskie	2	2
Warmińsko-Mazurskie	4	4
Wielkopolskie	8	9
Zachodniopomorskie	5	5
TOTAL	**100**	**100**

Change in impaired receivables in 2018 (gross)

(in PLN '000) as at 1 January 2018	**271 347**
Adjustment due to change in the methodology	17 349
Additions due to change of risk groups	42 976
Disposals due to reclassification to the non-impaired group	(33 917)
Disposals:	(17 373)
- due to portfolio sale	(7 270)
- remission and transfer to off-balance sheet	(152)
- due to repayments	(9 951)
As at 31 December 2018	**280 382**

Change in impaired receivables in 2017 (gross)

(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)
As at 31.12.2017*	**271 347**

*transformed data

Maximum exposure to credit risk

Statement of financial position items (PLN '000)	**31.12.2018**	**31.12.2017***
Funds on the account in Central Bank	197 987	103 297
Amounts due from banks	129 614	99 025
Amounts due from customers	12 195 894	11 731 301
Debt securities	1 552 738	1 484 659
issued by the Central Bank	139 984	45 818
treasury	1 321 600	1 351 395
other	91 154	87 446
Other assets	35 410	23 570
TOTAL	**14 111 643**	**13 441 852**

*transformed data

Off-balance sheet items (PLN '000)	**31.12.2018**	**31.12.2017***
Granted financial liabilities	300 301	284 259
TOTAL	**300 301**	284 259

*transformed data

40. Concentration risk management

Concentration risk - which may exert a material influence on the stability and security of the Bank's operations is the risk of non-fulfillment of obligation(s) by individual entities and groups of entities, in the case of which the probability of default depends on the same factors.

Due to the nature and large diversification of the credit portfolio, the Bank has established the following limits within the exposure concentration management policy:

Inter-bank portfolio

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

Loan portfolio

The Bank applies the exposure limit for a single exposure/single borrower in the amount of 1/20 of a large exposure limit specified in the 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 2018, the equity, which serves as the basis for defining large exposure limits, in accordance with Article 395 of CRR amounted to kPLN 1,642,977 (as at 31 December 2017: kPLN 1,469,544). As at 31 December 2018, concentration limits on exposure were not exceeded
by the Bank towards retail clients due to loans and advances granted or towards 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	31.12.2018 (%)	31.12.2017 (%)
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**

41. 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.

Fluctuations in market interest rates have an impact on the Bank's profit, both in the short and medium terms, and in the long term also affect its economic value. 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 – *economic value of capital*) 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. Measurement of both figures is complementary within the meaning of the full range of interest rate risk in the banking book. The interest rate risk management process at the Bank is additionally supported by hedge accounting mechanisms.

In 2018, the interest rate risk was generated mainly by a structural mismatch related to the increase in cash loans based on a fixed interest rate. In Q1 2018, the Bank reduced the exposure by entering into IRS contracts for 3-5 years for a total amount of mPLN 350, which were all designated to cash flow hedge accounting.

Interest bearing items split by type of the rate as at 31 December 2018 are presented in the table below.

	Fixed interest rate	Variable interest rate	Rate managed by the Bank	Total
Interest bearing assets	**48%**	**50%**	**2%**	**100%**
Non-financial sector	41%	45%	2%	**88%**
Financial sector	7%	5%	0%	**12%**
Interest bearing liabilities	**26%**	**41%**	**33%**	**100%**
Non-financial sector	26%	4%	33%	**63%**
Financial sector	0%	37%	0%	**37%**

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%**

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 2018 (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	197 987	-	-	-	-	-	-	49 165	**247 152**
Amounts due from banks	58 627	24	-	20 000	50 000	-	-	963	**129 614**
Amounts due from customers	1 178 633	6 007 314	732 488	1 050 252	1 318 327	1 566 330	468 553	(126 003)	**12 195 894**
Financial assets held as investment	419 534	-	429 365	90 948	-	496 373	88 701	41 767	**1 566 688**
Other assets	-	-	-	-	-	-	-	319 271	**319 271**
TOTAL ASSETS	**1 854 781**	**6 007 338**	**1 161 853**	**1 161 200**	**1 368 327**	**2 062 703**	**557 254**	**285 163**	**14 458 619**

**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	59 116	440 000	600 000	-	-	-	-	-	**1 099 116**

**NIB – non-interest bearing items*

LIABILITIES	up to 1 M	1-3 M	3-6 M	6-12 M	1-2 Y	2-5 Y	> 5 Y	NIB*	Total
Amounts due to banks and financial institutions	838 966	2 949 691	16 665	16 551	43 706	247 976	-	13 055	**4 126 610**
Amounts due to bond issuance	-	-	499 534	-	-	-	-	637	**500 171**
Amounts due to customers	1 720 668	3 524 846	944 206	421 281	359 760	478 353	262 034	30 482	**7 741 630**
Other liabilities	-	-	-	-	-	-	-	203 215	**203 215**
Subordinated debt	-	350 000	-	-	-	-	-	1 529	**351 529**
Equity	-	-	-	-	-	-	-	1 535 464	**1 535 464**
TOTAL EQUITY AND LIABILITIES	**2 559 634**	**6 824 537**	**1 460 405**	**437 832**	**403 466**	**726 329**	**262 034**	**1 784 382**	**14 458 619**

**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	9 129	-	-	150 000	-	850 000	90 000	-	**1 099 129**

**NIB – non-interest bearing items*

Duration gaps									
PLN gap	(332 770)	(653 626)	288 333	566 089	953 926	475 146	199 518	(1 499 179)	(2 563)
CHF gap	(314 743)	276 427	13 115	7 279	10 935	11 228	5 703	(9 878)	66
EUR gap	6 360	-	-	-	-	-	-	(6 224)	136
USD gap	(13 147)	-	-	-	-	-	-	13 196	49
GBP gap	(693)	-	-	-	-	-	-	825	132
Other gaps	126	-	-	-	-	-	-	-	126
TOTAL	**(654 867)**	**(377 199)**	**301 448**	**573 368**	**964 861**	**486 374**	**205 221**	**(1 501 260)**	**(2 054)**

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	-	-	-	-	-	-	-	314 086	**314 086**
TOTAL ASSETS	**1 440 973**	**5 974 385**	**957 314**	**1 442 073**	**1 461 927**	**2 123 871**	**428 127**	**(26 993)**	**13 801 677**

**transformed data*

**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	-	-	-	-	-	-	-	227 047	**227 047**
Subordinated debt	-	350 000	-	-	-	-	-	1 565	**351 565**
Equity	-	-	-	-	-	-	-	1 534 999	**1 534 999**
TOTAL EQUITY AND LIABILITIES	**2 212 178**	**6 297 901**	**1 812 396**	**613 278**	**355 953**	**435 361**	**269 229**	**1 805 381**	**13 801 677**

**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)**

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.

As at 31 December 2018, the above measures were as follows:

CHANGE IN ECONOMIC CAPITAL in %	NET INTEREST INCOME SENSITIVITY in %
-2,4%	-0,9%

For comparison purposes, the above items as at 31 December 2017 were as follows:

CHANGE IN ECONOMIC CAPITAL in %	NET INTEREST INCOME SENSITIVITY in %
-3,0%	-0,6%

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 2018, the above measures were as follows:

GAP IN TOTAL ASSETS (%)		
<=1Y	(1Y – 5Y>*	>5Y
-0,9%	2,5%	1,4%

For comparison purposes, the above items as at 31 December 2017 were as follows:

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

**Average annual gap*

During 2018, all internal measures of the interest rate risk remained well above the minimum limits/warning levels.

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).

42. Currency risk management

Currency risk is the risk of a deterioration of the financial position due to unfavorable 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 service for retail customers in the area of foreign currency current accounts and term deposits as well as cash and non-cash foreign currency settlements,
- 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 2018

	CURRENCY				
(in '000)	CHF	EUR	USD	Other currencies*	Currency conversion in PLN
ASSETS					
Amounts due from banks	5 197	7 625	452	731	56 603
Amounts due from customers	280 019	-	-	-	1 068 721
Other assets	-	948	3 999	180	19 972
TOTAL ASSETS	**285 216**	**8 573**	**4 451**	**911**	**1 145 296**
LIABILITIES					
Amounts due to banks and financial institutions	285 021	-	-	-	1 087 811
Other liabilities	178	7 940	2 655	602	47 687
Total liabilities	**285 199**	**7 940**	**2 655**	**602**	**1 135 498**

	CURRENCY				
(in '000)	**CHF**	**EUR**	**USD**	**Other currencies***	**Currency conversion in PLN**
OFF-BALANCE SHEET					
Current currency operations	-	550	250	-	3 305
Derivatives	-	-	1 550	-	5 828
Other liabilities	-	52	10	-	261
TOTAL OFF-BALANCE SHEET	**-**	**602**	**1 810**	**-**	**9 394**

Values in foreign currencies have been converted into PLN according to Table no. 252/A/NBP/2018 as at 31 December 2018.
**The "Other currencies" item includes the following currencies: GBP, NOK,SEK, DKK, CZK*

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 currencies" item includes the following currencies: GBP, NOK,SEK, DKK6*

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

FX position as at 31 December 2018

Foreign-exchange position thousand currency units		Total foreign-exchange position thousand PLN	Own funds thousand PLN	Total foreign-exchange position to equity ratio %
EUR	32			
CHF	17			
USD	486			
GBP	28	2 288	1 642 977	0,14%
DKK	47			
CZK	2			
NOK	117			
SEK	115			

FX position as at 31 December 2017

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

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).

43. 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, 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 in PLN used by the Bank include retail deposits (approx. 54% of the balance sheet total), long-term funds from the main shareholder (including subordinated loans, approx. 21% of the balance sheet total) and medium-term funding received as a result of bond issuance on the local market (approx. 3.5%

of the balance sheet total). In addition, the Bank raises funds from the interbank market and as part of bilateral cooperation with business partners (approx. 2% of the balance sheet total). Liquidity reserves maintained by the Bank on an ongoing basis enable it to secure funds necessary to fulfill its payment obligations in the event of e.g. seasonal outflow of deposits or credit activity dynamics incommensurate with the increase in deposits.

In 2018, the Bank continued to implement the strategy of building long-term relationships with clients ensuring the acquisition of appropriately diversified and stable funding in the form of a deposit base. The concentration of the deposit base, measured by the share of the 50 largest depositors, at the end of 2018 amounted to 1%. Funds of the largest depositors in the part exceeding the guarantee of the Bank Guarantee Fund at kEUR 100 are not treated as stable for the purposes of supervisory liquidity measures.

In November 2018, three-year bonds issued by the Bank in November 2015 to a nominal value of mPLN 240 were redeemed. The redemption of bonds did not translate significantly into the Bank's liquidity position, as it was largely offset by additional funds obtained from retail clients. The Bank consistently secured a long-term liquidity position by renewing the funds adopted from Societe Generale for terms above 5 years.

The main foreign currency on which the Bank makes a significant number of settlements is the Swiss franc (CHF). The Bank holds a portfolio of mortgage loans indexed in CHF (successively phased-out after ceasing to sell such loans in 2009), which is fully financed with deposits in the same currency acquired from the Societe Generale Group. As part of foreign currency liquidity management in this area, the Bank focuses primarily on ensuring a safe structure of matching assets and liabilities in terms of maturities, in particular by renewing the maturing deposits accepted from the Societe Generale Group for terms over 5 years.

Available funds are invested in safe and liquid securities, mainly treasury bonds, money bills of the National Bank of Poland and bonds of the European Investment Bank. These assets are characterized by a high level of liquidity and can be easily used as collateral or sold without significant loss of their value. This portfolio is treated as the Bank's liquidity reserve, which will allow it to survive potential crisis situations. The limits related to permitted investments are reviewed on a quarterly basis.

Liquidity management is supported by limits, control mechanisms and cross-section management information prepared for the management at various levels. They include, in particular, the requirements resulting from the Resolution 386/2008 of the Polish Financial Supervision Authority (starting from 1 January 2018, the M3 and M4 measures remained binding for Banks, while the M1 and M2 measures were replaced by the LCR – Liquidity Coverage Ratio) in the scope of calculation and monitoring of supervisory liquidity measures on a daily basis. 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 – 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.

In the course of 2018, all internal regulatory and internal liquidity ratios remained well above the minimum limits/warning levels.

Liquidity ratios		2018.12.31	2017.12.31
M2	Short-term liquidity ratio	2,42	2,94
M4	Coverage of illiquid assets and assets of limited liquidity with own funds and stable external funds	1,07	1,06
LCR	Net outflows coverage ratio	268%	241%
NSFR	Net stable funding ratio	125%	123%

The Bank regularly performs stress tests for the estimation of potential losses assuming extremely adverse scenarios affecting the liquidity position of the Bank. The results of stress tests are used in particular to set warning thresholds for early warning indicators, the task of which is to identify upcoming liquidity problems and to indicate the Management Board a possible need to launch a liquidity contingency plan.

As part of the planning and budgeting process, the Bank pays particular attention to ensuring that the growth of the loan portfolio is supported by an adequate liquidity funding structure and compliance with regulatory and internal liquidity measures.

Gap analysis of assets/liabilities and off-balance sheet liabilities by realigned maturity/due date as at 31 December 2018 (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	-25 512	40 819	22 674	36 844	43 675	73 721	54 931	**247 152**
Amounts due from banks	58 627	24	-	20 963	50 000	-	-	**129 614**
Amounts due from customers	240 725	370 175	552 438	1 001 470	1 800 044	3 313 304	4 917 738	**12 195 894**
Financial assets held as investment	1 552 738	-	-	-	-	-	13 950	**1 566 688**
Other assets	43 997	22 210	34 880	66 343	70 679	79 716	1 446	**319 271**
TOTAL ASSETS	**1 870 575**	**433 228**	**609 992**	**1 125 620**	**1 964 398**	**3 466 741**	**4 988 065**	**14 458 619**

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*	(31 461)	(8 420)	(10 109)	(16 598)	(14 047)	33 557	47 078	**(0)**
Other	(2 039)	-	-	-	-	-	-	**(2 039)**

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	37 276	58 268	118 637	459 565	519 656	762 546	2 170 662	**4 126 610**
Amounts due to bond issuance	-	-	636	249 893	-	249 642	-	**500 171**
Amounts due to customers	616 979	1 065 593	602 500	953 963	1 149 077	1 870 090	1 483 428	**7 741 630**
Other liabilities	99 305	42 035	20 503	19 241	10 584	10 228	1 319	**203 215**
Subordinated debt	-	1 529	-	50 000	50 000	150 000	100 000	**351 529**
Equity	9 300	-	20 617	-	-	-	1 505 547	**1 535 464**
TOTAL EQUITY AND LIABILITIES	**762 860**	**1 167 425**	**762 893**	**1 732 662**	**1 729 317**	**3 042 506**	**5 260 956**	**14 458 619**

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	1 074 215	331 598	168 588	(455 052)	(234 018)	223 774	(2 039)	-
Liquidity ratio	2,41	1,17	-	-	-	-	-	-

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	42 320	24 125	35 226	70 604	57 876	80 720	3 217	**314 086**
TOTAL ASSETS	**1 676 519**	**411 167**	**586 388**	**1 142 601**	**1 944 041**	**3 382 657**	**4 658 304**	**13 801 677**

**transformed data*

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	49 034	5 942	5 310	1 045	**227 047**
Subordinated debt	-	1 565	-	-	50 000	200 000	100 000	**351 565**
Equity	15 031	-	20 567	-	-	-	1 499 401	**1 534 999**
TOTAL EQUITY AND LIABILITIES	**516 590**	**849 622**	**740 358**	**1 834 171**	**2 007 647**	**2 974 925**	**4 878 363**	**13 801 677**

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	1 117 365	679 599	527 662	(159 533)	(215 298)	205 831	(2 726)	-
Liquidity ratio	3,16	1,50	-	-	-	-	-	-

Financial liabilities by maturity date based on contractual non-discounted payments with future interest payments as at 31 December 2018 (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	15 669	22 539	69 902	138 322	497 568	588 870	933 888	2 325 216	**4 591 975**
Amounts due to bond issuance	0	0	0	6 981	257 019	6 543	256 525	0	**527 068**
Amounts due to customers	4 311 852	693 502	1 293 358	465 698	509 805	245 217	260 486	0	**7 779 917**
Subordinated debt	0	0	3 321	3 267	56 003	60 590	161 965	112 649	**397 795**
TOTAL EQUITY AND LIABILITIES	**4 327 521**	**716 041**	**1 366 581**	**614 268**	**1 320 395**	**901 219**	**1 612 863**	**2 437 865**	**13 296 754**

Financial liabilities 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**

**transformed data*

Receivables and liabilities arising from derivatives designated for hedge accounting, together with the reconciliation to their carrying values as at 31 December 2018

(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	-	1 306	3 234	5 607	10 209	18 194	23 879	8 537	**70 967**
Outflows	-	(2 323)	(6 143)	(9 000)	(6 186)	(20 892)	(34 239)	(7 425)	**(86 206)**
NET	**-**	**(1 016)**	**(2 908)**	**(3 393)**	**4 024**	**(2 698)**	**(10 360)**	**1 112**	**(15 240)**
Discounted using the zero-coupon curve	-	(1 015)	(2 899)	(3 377)	3 963	(2 704)	(9 852)	1 004	**(14 879)**

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**

**transformed data*

44. 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 analyzes 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 analyzing 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.

45. 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.

On 24 November 2017, the Polish Financial Supervision Authority issued a recommendation to banks regarding minimum capital ratios. According to said recommendation, banks should maintain capital ratios at the regulatory level resulting from CRR, increased by the value of individual capital add-ons and the combined buffer requirement. This means that the level of capital ratios applicable in 2018 should be as follows:

- core capital ratio at 4.5% + 0.56%*add-on + combined buffer requirement,
- Tier1 capital ratio at 6% + 75%*add-on + combined buffer requirement,
- total capital ratio at 8% + add-on + combined buffer requirement.

The combined buffer requirement in 2018 includes the sum of applicable buffers, i.e.

- the conservation buffer at 1.875%,

- the systemic risk buffer at 3%,
- countercyclical buffer at 0%,
- buffer of other systemically important institutions – determined by way of an individual decision of the Polish Financial Supervision Authority, for the Bank this buffer is at 0%,

In addition, the Bank is obliged to maintain the so-called individual capital add-on in order to hedge the risk resulting from foreign currency mortgage loans for households. The value of this add-on, in accordance with the decision of the Polish Financial Supervision Authority of November 2017, in 2018 was at 0.53% of the total risk exposure for the Bank. This add-on is composed in 75% of Tier1 capital (this corresponds the capital requirement of 0.4). In December 2018, the Bank received an administrative decision from the Polish Financial Supervision Authority on the withdrawal of the obligation to maintain additional capital buffers for the risk associated with the foreign currency loan portfolio.

Considering the above, the minimum required level of capital ratios for the Bank as of 31 December 2018 is:

- 10.88% for the Tier 1 capital ratio,
- 12.88% for the total capital ratio.

Due to the increase in the applicable value of the conservation buffer, the minimum capital ratios for the Bank in 2019 will be at 11.50% for the T1 capital ratio and 13.50% for the total capital ratio, respectively.

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.

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)	31.12.2018	31.12.2017
Own funds	**1 642 977**	**1 645 114**
Tier1 capital	**1 445 947**	**1 398 089**
Share capital	563 096	563 096
Supplementary capital	987 201	884 364
Revaluation reserve	13 166	11 839
Retained earnings	(124 261)	-
Adjustment of funds by deferred tax asset	(32 242)	(8 403)
Adjustment of funds by intangible assets	(47 834)	(52 807)
AVA adjustment	(1 582)	-
Adjustment due to the transitional period for IFRS 9	91 359	-
Other items	(2 956)	-
Tier 2 Capital	**197 030**	**247 025**
Subordinated loan	197 030	247 025
Balance sheet risk-weighted assets	8 978 707	**9 063 004**
20% risk rate	11 730	5 613
35% risk rate	1 685 785	1 208 949
50% risk rate	35 482	35 477
75% risk rate	4 490 467	5 092 905
100% risk rate	713 310	561 595
150% risk rate	1 695 226	1 806 842
250% risk rate	346 707	351 623
Off-balance sheet risk-weighted liabilities	**100 960**	**96 068**
20% risk rate	37	49
50% risk rate	13 775	12 350
75% risk rate	87 148	83 669
100% risk rate		
Total risk weighted balance sheet assets and off-balance sheet liabilities	**9 079 667**	**9 159 072**
Risk exposure to credit risk	**9 079 667**	9 159 072
risk exposure to operational risk	1 091 866	1 090 134
risk exposure to currency risk*	-	-
CVA risk exposure	22 775	24 111
Total risk exposure amount	**10 194 308**	**10 273 317**
Tier 1	**14,18%**	**13,61%**
Total capital ratio	**16,12%**	**16,01%**

The total capital adequacy ratio of the Bank calculated as at 31 December 2018 was at 16.12%, and the Tier 1 capital ratio at 14.18%.

As at 31 December 2018, the Bank meets all statutory capital requirements defined by law and the guidelines of the Polish Financial Supervision Authority regarding the level of capital adequacy.

OTHER ADDITIONAL NOTES

46. Cash

The cash flow statement includes the following items:

(PLN '000)	**31.12.2018**	**31.12.2017***
Cash and deposits in the Central Bank	247 152	163 237
Current accounts**	56 698	26 425
TOTAL	303 850	189 662

**transformed data*
***without the Company Social Benefits Fund*

In 2018, the impact of changes in foreign exchange rates during the financial year on cash amounted to kPLN 3,049. In 2017, the impact of changes in foreign exchange rates during the financial year on cash was negative and amounted to kPLN 1,462.

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

There were no significant events after the balance sheet date.

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

As at 31 December 2018, Societe Generale Financial Services Holding with its registered office in Paris held over 99.79% of the Bank's shares.

49. 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 2018 and 31 December 2017.

(in PLN '000)	**31.12.2018**	**31.12.2017**
Siège SG - Comptabilité Fournisseurs (entity belonging to the Group)		
Liabilities	**9 625**	**8 574**
Liabilities for invoices	9 625	8 574
Societe Generale New York (entity belonging to the group)		
Assets	**685**	**32**
Current accounts	685	32
Societe Generale Paris (entity belonging to the group)		
Assets	**114 168**	**81 596**
Current accounts	43 126	4 706
Granted deposits	70 966	70 966
IBNR write-off	(3)	(12)
Invoice receivables	79	398
CF derivative hedge instruments – valuation	-	5 538
Liabilities and capitals	**4 191 890**	**4 184 121**
Loans received	4 177 011	4 184 121
CF derivative hedge instruments – valuation	14 879	-
Derivatives (face value)	**2 180 000**	**1 880 000**
CF sold term derivative instruments	1 090 000	940 000
CF purchased term derivative instruments	1 090 000	940 000
	-	**5 039**

Guarantees		
Guarantees received	-	5 039
Societe Generale Warsaw (entity belonging to the group)		
Assets	**6 600**	**18 458**
Current accounts	6 527	18 458
Invoice receivables	73	-
Liabilities	**65**	**374**
Current accounts	65	24
Deposits accepted	-	350
SOGECAP (entity belonging to the group)		
Assets	**9 695**	**6 774**
Invoice receivables	9 695	6 774
Liabilities	**239 430**	**244 310**
Liabilities for invoices	885	1 656
Deposits	238 545	242 654
SOGESSUR (entity belonging to the group)		
Assets	**1 994**	**825**
Invoice receivables	1 994	825
Liabilities	**6 944**	**8 366**
Deposits	6 944	8 366
Societe Generale Equipment Leasing (entity belonging to the group)		
Assets	**22**	**-**
Invoice receivables	22	-
ALD AUTOMOTIVE Warsaw (entity belonging to the group)		
Assets	**371**	**-**
Invoice receivables	371	-

The following table presents revenues and expenses on transactions with related parties in the periods from 1 January 2018 to 31 December 2017 and from 1 January 2018 to 31 December 2017

(in PLN '000)	**2018**	**2017**
Societe Generale Consumer Finance (entity belonging to the group)		
Costs	**(300)**	**-**
Management services costs	(300)	-
Siège SG - Comptabilité Fournisseurs (entity belonging to the Group)		
Costs	**(13 008)**	**(10 342)**
Management services costs	(13 008)	(10 342)
Societe Generale Paris (entity belonging to the group)		
Revenues	**4 356**	**5 663**
Interest income	4 356	5 663
Costs	**(95 899)**	**(98 902)**
Interest expenses	(92 937)	(97 907)
Interest expense on derivatives	(2 962)	(995)
Societe Generale Warsaw (entity belonging to the group)		
Revenues	**126**	**10**
Invoice income	126	10
Costs	**(630)**	**(535)**
Interest expenses	(489)	(431)
Commission expense	(141)	(104)
SOGECAP (entity belonging to the group)		
Revenues	**89 363**	**94 008**
Insurance income	88 702	93 372
Revenue from services	661	636
Costs	**(4 623)**	**(4 604)**

Interest expenses	(4 623)	(4 604)
SOGESSUR (entity belonging to the group)		
Revenues	**9 010**	**6 618**
Insurance income	9 010	6 618
Costs	**(135)**	**(168)**
Interest expenses	(135)	(168)
ALD AUTOMOTIVE Warsaw (entity belonging to the group)		
Revenues	**18**	**-**
Revenue due to lease services fees	18	-
Costs	**(9 013)**	**(8 715)**
Costs due to lease services fees	-	(4)
Costs of car maintenance services and lease fees,	(9 013)	(8 711)
Societe Generale Equipment Leasing (entity belonging to the group)		
Revenues	**51**	**-**
Revenue due to lease services fees	51	-
Costs	**-**	**(14)**
Costs due to lease services fees	-	(14)

As at 31 December 2018, the Bank's exposure to employees due to loans and advances amounted to PLN 72,633 thousand, and as at 31 December 2017 - PLN 78,948 thousand.
In 2018 and 2017, there were no significant non-standard transactions with related parties, the nature and conditions of which were not related to current operations of the Bank. All transactions were concluded at market terms, without special or non-standard provisions.

50. 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 2018

(PLN '000)	***Hierarchy level***	***Valuation method***	***Carrying amount as at 31 December 2018***	***Fair value as at 31 December 2018***
Amounts due from banks	2	discounted cash flows	129 614	132 654
Individuals*	3	discounted cash flows	12 195 893	11 603 247
other credits and loans	*3*	discounted cash flows	5 752 327	5 660 216
mortgage loans	*3*	discounted cash flows	6 350 727	5 856 557
credit cards	*3*	discounted cash flows	92 840	86 474
TOTAL			**12 325 507**	**11 735 901**

(PLN '000)	*Hierarchy level*	*Valuation method*	*Carrying amount as at 31 December 2018*	*Fair value as at 31 December 2018*
Amounts due to banks and financial institutions	2	discounted cash flows	4 126 610	4 130 996
Amounts due to bond issuance	2	discounted cash flows	500 171	500 719
Amounts due to customers	2	discounted cash flows	7 741 630	7 732 883
TOTAL			**12 368 411**	**12 364 598**

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**

**transformed data*

***The negative effect of the loan portfolio measurement to fair value is mainly caused by the increase in loan margins. The Bank assumes that current margins best reflect the existing market conditions and economic situation. The increase in margins translates into a decrease in the fair value of the "old" loan portfolio.*

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. The fair value of loans with no specified repayment schedule, due to their short-term nature and the Bank's stable policy over time in relation to this portfolio, is similar
to the carrying value.

Liabilities to banks

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

Amounts due to customers

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

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

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

In 2018, there were no transfers between level 1 and 2.

(PLN '000)	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
	31.12.2018	**31.12.2018**	**31.12.2018**	**31.12.2018**
Debt securities	1 412 754	139 984	-	1 552 738
Equity securities	-	-	13 950	13 950
TOTAL	**1 412 754**	**139 984**	**13 950**	**1 566 688**

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				
Debt securities	1 438 841	45 818	-	1 484 659
Equity securities	-	-	9 369	9 369
TOTAL	**1 438 841**	**45 818**	**9 369**	**1 494 028**

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).

(in PLN '000)	Level 1 31.12.2018	Level 2 31.12.2018	Level 3 31.12.2018	TOTAL 31.12.2018
Financial assets				-
Amounts due from banks	-	132 654	-	132 654
Individuals	-	-	11 603 247	11 603 247
TOTAL		**132 654**	**11 603 247**	**11 735 901**
Financial liabilities				
Amounts due to banks and financial institutions	-	4 130 996	-	4 130 996
Amounts due to bond issuance	-	500 719	-	500 719
Amounts due to customers	-	7 732 883	-	7 732 883
TOTAL	**-**	**12 364 598**	**-**	**12 364 598**

(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**	**11 270 626**	**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**

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

Remuneration of the Management Board

(in PLN '000)	2018	2017
Remuneration in the financial period*	**6 505**	**8 212**
Benefits (remuneration and payroll charges)	6 223	7 602
Provision for unused holidays	-	311
Other benefits	282	299

**including payments due to the variable remuneration component*

Remuneration of the Supervisory Board

(in PLN '000)	2018	2017
Remuneration in the financial period	**474**	**474**
Short-term benefits	474	474
Other benefits	-	-

The Bank's remuneration policy, updated by the Bank's Management Board and adopted by the Supervisory Board in 2018, is compliant with the framework defined in CRD IV.

The purposes 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.

52. Contingent liabilities and collaterals

Granted guarantees and endorsements

The Bank did not grant any guarantees or endorsements.

Issuer guarantees and endorsements

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

Subscription options or sale of ordinary shares

The Bank did not enter into any such contracts.

Dividends

In 2018, the Bank did not pay dividends.

At the date of preparation of these financial statements, the Bank has not made any decisions regarding the allocation of profit for the year 2018.

Information about assets used as collateral for 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 2018:

- securities used as collateral of the guarantee fund maintained by the Bank Guarantee Fund with a carrying amount of kPLN 37,780,
- deposits used as collateral of rental agreements in the amount of kPLN 169.

Pursuant to Resolution 99/2017 of the Board of the Bank Guarantee Fund of 15 November 2017 on determination of the amount of the guaranteed deposit protection fund for 2018, the Bank maintained a blockade on securities in the amount of 0.5% of total funds being the basis for calculating the reserve requirement. The value of funds blocked in H2 2018 amounted to kPLN 36,851.

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

As at 31 December 2018 and 31 December 2017, the Bank was not a party to transactions with buy-back clauses that would not be disclosed in the balance sheet.

Granted financial liabilities

As at 31 December 2018, the Bank had off-balance financial liabilities totaling kPLN 300,301, including liabilities due to extended mortgage loans in the amount of kPLN 79,021, due to extended credit card loans in the amount kPLN 108,663 and due to granted overdrafts in the amount of kPLN 112,617.

As at 31 December 2017, the Bank had off-balance financial liabilities totaling 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.

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 2018, the Bank had an IRS in the nominal value of mPLN 1,090 and FX forward transactions in nominal value of mUSD 1.55. 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 and kGBP 120.

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

	31.12.2018		31.12.2017	
Type of contract	**Assets**	**Liabilities**	**Assets**	**Liabilities**
IRS	-	14 879	5 538	-
Forward	-	-	122	-
Total	**-**	**14 879 -**	**5 660**	**-**

Liabilities received

As at 31 December 2018, the Bank held received off-balance sheet liabilities in the amount of mPLN 1,422 and mCHF 23 (mPLN 87) due to granted and unused credit lines. The bank did not have any guarantees given or received.

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.

53. Hedge accounting principles adopted by the Bank

In the financial statements for the year 2018 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 financial assets measured at fair value through other comprehensive income, arising from changes in interest rates (*micro fair value hedge*), In 2018, the nominal value of the IRS portfolio designated to cash flow hedge accounting increased by mPLN 150. In Q1 2018, the Bank concluded IRS transactions for the total amount of mPLN 350 (terms of 3-5 years), which were entirety designated to cash flow hedge accounting in connection with PLN savings accounts, while in November 2018 the contract for mPLN 200 concluded 2014 reached its maturity.

Summary of nominal values of derivative hedging instruments based on contractual maturity dates as at 31 December 2018 (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)	–	–	–	150 000	–	350 000	–	**500 000**
TOTAL	**0**	**0**	**0**	**150 000**	**0**	**850 000**	**90 000**	**1 090 000**

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**

**transformed data*

Fair values of hedging derivatives as at 31 December 2018 (in PLN '000)

in PLN '000	ASSETS	LIABILITIES
Fair value hedge accounting		
interest rate swaps (IRS)	–	4 803
Cash flow hedge accounting		
interest rate swaps (IRS)	–	10 076
Total	**–**	**14 879**

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 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 2018, 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 rate coupon debt securities classified into the category of financial assets measured at fair value through other comprehensive income 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 part of the revaluation to fair value (resulting from the spread between the swap curve and the bond curve) is posted in accordance with the general principles for financial assets measured at fair value through other comprehensive income. 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 cash flows are expected from derivative instruments designated to fair value hedge accounting with regard to their impact on the profit and loss account.

Year 2018

(PLN '000)	INTEREST INCOME	INTEREST EXPENSE	NET
Up to 1 year	11 426	(12 338)	(912)
1 to 2 years	11 998	(12 371)	(373)
2 to 3 years	5 746	(5 797)	(51)
3 to 4 years	2 490	(2 475)	15
over 4 years	10 261	(9 025)	1 236

	CASH FLOWS		
(PLN '000)	INFLOWS	OUTFLOWS	NET
Up to 1 year	11 433	(12 343)	(910)
1 to 2 years	11 757	(12 411)	(654)
2 to 3 years	7 793	(12 303)	(4 510)
3 to 4 years	2 402	(2 475)	(73)
over 4 years	11 173	(9 900)	1 273

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

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

	2018.12.31	2017.12.31
Profit/loss due to fluctuations in the fair value of the hedging instrument	(9 932)	(1 780)
Profit/loss due to fluctuations in the fair value of the hedged item related to the hedged risk	9 942	1 886
Fair value hedge result	**10**	**106**
Interest income on hedging derivatives	**(933)**	**(856)**

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 2018, other comprehensive income included the amount of kPLN (5,056) (including deferred tax) related the effective portion of the hedging relationship in the cash flow hedge accounting (kPLN 286 as at 31 December 2017). In 2018, the part of the ineffective hedging relationship resulting from the mismatch in offsetting changes in the fair value of the hedging instrument and the hedged item was not recognized. The amount of kPLN (100) recognized in the profit and loss account in 2018 is a reversal of ineffectiveness recognized in 2017.

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 2018, 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 2018 and 2017 the Bank recognized in the statement of comprehensive income and revaluation reserve.

(PLN '000)	**2018.12.31**	**2017.12.31**
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)	(4 096)	232
Ineffective portion of the revaluation to the fair value of hedging derivative due to hedged risk, recognized in the profit/loss on financial transactions	(100)	33
Net interest on hedging derivatives in macro cash flow hedges recognized in the interest margin	(2 039)	(140)
Period when the hedged cash flows are expected, including interest (in PLN '000): Up to 1 year: kPLN 8,313 1 to 3 years: kPLN 11,780 Over 3 years: kPLN 3,373	5 years	2 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 2018

(PLN '000)	**INTEREST INCOME**	**INTEREST EXPENSE**	**NET**
Up to 1 year	8 531	(11 305)	(2 773)
1 to 2 years	6 614	(8 471)	(1 857)
2 to 3 years	5 310	(6 318)	(1 008)
3 to 4 years	2 775	(2 929)	(154)
over 5 years	577	(567)	10

	CASH FLOWS		
(PLN '000)	**INFLOWS**	**OUTFLOWS**	**NET**
Up to 1 year	8 924	(11 308)	(2 384)
1 to 2 years	6 436	(8 481)	(2 045)
2 to 3 years	5 975	(8 453)	(2 478)
3 to 4 years	3 859	(6 126)	(2 266)
over 5 years	1 215	(2 408)	(1 193)

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	-	-	-

**transformed data*

The table below presents changes in revaluation reserve due to macro cash flow hedges in 2018 and 2017.

Change in the revaluation reserve in period *(in PLN '000)*	**2018**	**2017***
Opening balance	231	800
Movements of active hedges	(7 381)	(842)
- change in clean value	(5 342)	(702)
- interest	(2 039)	(140)
Amortization of inactive hedges	-	-
Amount of deferred revaluation to the fair value of hedging derivatives due to hedged risk, moved from the revaluation reserve to the interest margin (Net interest on hedging derivative in macro cash flow hedges)	2 039	140
Deferred tax	1 015	133
Closing balance	**(4 096)**	**231**
Total change in period	**(4 327)**	**(569)**

**transformed data*

54. 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 2018 and from 31 January to 31 December 2017.

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

(PLN '000)	2018	2017
Remuneration for mandatory audit of the annual financial statements	450	450
Total	**450**	**450**

56. Income on dividends

In the period from 1 January to 31 December 2018, the Bank earned income from dividends on Visa Inc. shares in the amount of kPLN 88.
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.

57. Capital expenditure

During the period from 1 January to 31 December 2018, the Bank incurred kPLN 37,453 in capital expenditure, of which kPLN 15,604 for fixed assets and kPLN 21,849 for intangible assets. Capital expenditure committed by the Bank for 2018 amount to kPLN 370 and apply to the IT area.

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.

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

In Q4 2018, the Bank discontinued operations in the area of management of securitized claims of securitization funds. In 2018, the Bank generated revenues from discontinued operations in the amount of kPLN 7,707, and the costs incurred in connection with these operations amounted to kPLN 993. In 2017, revenues on servicing claims of securitization funds amounted to kPLN 7,674, and the costs incurred in connection with this activity amounted to kPLN 1,814.

59. Average number of employees in the financial period

The average employment in 2018 amounted to 2687 employees vs. 2902 employees in 2017.
The number of employees as of the end of 2018 was 2,771.46 employees and 2,750.54 FTEs vs. 2,884 employees and 2,860.3 FTEs in 2015.

60. Provisions for future liabilities to employees

Provisions for future liabilities to employees, by type:

(PLN ‘000)	**31.12.2018**	**31.12.2017***
- for retirement severance	438	438
- for unused holidays (short-term benefits)	7 717	8 001

**transformed data*

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.

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. In 2018, the Bank introduced a remuneration scheme based on own shares. For this purpose, the Bank purchased a pool of 99,751 shares from the main shareholder at the nominal value of kPLN 1,126.

The Bank recognized the cost of the scheme in accordance with IAS 19, due to the over-the-counter nature of trading in shares, and guided by the principle of economic content over the legal form of the operation, recognizing that the restrictions on share disposal in the agreement with employees result in a real lack of ownership change.