Financial statements of
RAIFFEISEN BANK POLSKA S.A.
for the year 2017

The Management Board presents the financial statements for the year ended 31 December 2017

Piotr Czarnecki	President of the Management Board	.........signed on the Polish original.................
name and surname	*position/function*	*signature*
Maciej Bardan	First Vice-President of the Management Board	.........signed on the Polish original.................
name and surname	*position/function*	*signature*
Jan Czeremcha	Vice-President of the Management Board	.........signed on the Polish original.................
name and surname	*position/function*	*signature*
Witold Broniszewski	Member of the Management Board	.........signed on the Polish original.................
name and surname	*position/function*	*signature*
Piotr Konieczny	Member of the Management Board	.........signed on the Polish original.................
name and surname	*position/function*	*signature*
Werner Georg Mayer	Member of the Management Board	.........signed on the Polish original.................
name and surname	*position/function*	*signature*
Michael Höllerer	Member of the Management Board	.........signed on the Polish original.................
name and surname	*position/function*	*signature*
Patrycja Zenik-Rychlik	Head of Financial Accounting and Tax Department	.........signed on the Polish original.................
name and surname	*position/function*	*Signature*

Warsaw, 6 March 2018

Table of contents

Table of contents

Table of contents

Statement of profit or loss

	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest income		1 562 773	1 589 348
Interest expense		-458 594	-571 180
Net interest income	4	**1 104 179**	**1 018 168**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	5	-301 806	-176 177
including Proceeds from sale of receivables		66 995	12 754
Fee and commission income		653 590	669 040
Fee and commission expense		-68 419	-81 088
Net fee and commission income	6	**585 171**	**587 952**
Net income from financial instruments measured at fair value and net foreign exchange result	7	54 696	109 542
Dividend income	19	9 024	120
Result on sale of shares in subsidiary	19	0	202 313
General administrative expenses	8	-1 028 548	-1 114 786
Other operating income	9	37 843	12 038
Other operating expenses	9	-158 461	-203 425
Tax on financial institutions		-132 505	-148 776
Profit before tax		**169 593**	**286 969**
Income tax expense	10	-90 574	-124 154
Net profit		**79 019**	**162 815**

Weighted average number of ordinary shares (in units)	11	225 668 340	225 668 340
Profit attributable to the Bank's equity holders per one ordinary share (in PLN)	11	0,4	0,7
Weighted average number of diluted shares (in units)	11	225 668 340	225 668 340
Profit attributable to the Bank's equity holders per one diluted share (in PLN)	11	0,4	0,7

Notes presented on pages 12- 170 are an integral part of the Financial Statements.

Statement of comprehensive income

	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Net profit		**79 019**	**162 815**
Other taxable income that may be reclassified to profit or loss, including:		**41 955**	**-41 388**
Valuation of cash-flow hedge derivatives, gross	29	21 294	8 860
Income tax on cash-flow hedge derivatives	29	-4 046	-1 683
Valuation of available for sale financial assets, gross	29	30 502	-59 957
Income tax on available for sale financial assets	29	-5 795	11 392
Total comprehensive income		**120 974**	**121 427**

Notes presented on pages 12- 170 are an integral part of the Financial Statements.

Statement of financial position

Assets	Note	As at 31 December 2017	As at 31 December 2016
Cash and balances with Central Bank	12	1 315 990	1 731 869
Amounts due from banks	13	103 203	315 252
Financial assets held for trading	16	1 230 403	8 047 342
Derivative financial instruments	14	537 524	466 720
Investment securities	17	12 648 386	7 947 954
Loans and advances to customers	18	32 416 789	33 868 005
Investments in subsidiaries	19	30 895	40 495
Intangible assets	20	267 769	384 023
Tangible fixed assets	21	87 983	118 067
Deferred income tax assets	10	105 255	129 338
Other assets	22	230 223	217 653
Total assets		**48 974 420**	**53 266 718**

Liabilities and equity	Note	As at 31 December 2017	As at 31 December 2016
Amounts due to banks and other monetary institutions	23	5 779 865	7 433 406
Derivative financial instruments	14	561 536	1 546 175
Amounts due to customers	24	34 392 256	36 361 807
Subordinated liabilities	25	1 064 859	332 096
Liabilities from debt securities issued	26	0	501 830
Other liabilities	27	531 928	512 731
Current tax liabilities		10 540	63 279
Provisions	28	143 274	146 206
Total liabilities		**42 484 258**	**46 897 530**
Equity			
Share capital	29	2 256 683	2 256 683
Supplementary capital		2 287 790	2 287 790
Other capital and reserves	29	1 074 443	1 002 488
Retained earnings		871 246	822 227
Total equity		**6 490 162**	**6 369 188**
Total liabilities and equity		**48 974 420**	**53 266 718**

Notes presented on pages 12- 170 are an integral part of the Financial Statements.

Statement of changes in equity

	Note	Share capital	Supplementary capital	Other capital and reserves	Retained earnings: Prior years result	Retained earnings: Net profit for the year	Total
As at 1 January 2017		**2 256 683**	**2 287 790**	**1 002 488**	**659 412**	**162 815**	**6 369 188**
Valuation of available for sale financial assets, net		0	0	24 707	0	0	24 707
Valuation of cash-flow hedge derivatives, net		0	0	17 248	0	0	17 248
Net profit for the year		0	0	0	0	79 019	79 019
Total comprehensive income		**0**	**0**	**41 955**	**0**	**79 019**	**120 974**
Transfer of net result to retained earnings		0	0	0	162 815	-162 815	0
Transactions with owners		**0**	**0**	**30 000**	**-30 000**	**0**	**0**
Transfer of net result to general banking risk reserve		0	0	30 000	-30 000	0	0
As at 31 December 2017	**29**	**2 256 683**	**2 287 790**	**1 074 443**	**792 227**	**79 019**	**6 490 162**

Notes presented on pages 12- 170 are an integral part of the Financial Statements.

Statement of changes in equity (cont.)

	Note	Share capital	Supplementary capital	Other capital and reserves	Retained earnings: Prior years result	Retained earnings: Net profit for the year	Total
As at 1 January 2016		**2 256 683**	**2 287 790**	**1 018 877**	**524 336**	**160 075**	**6 247 761**
Valuation of available for sale financial assets, net		0	0	-48 565	0	0	-48 565
Valuation of cash-flow hedge derivatives, net		0	0	7 177	0	0	7 177
Net profit for the year		0	0	0	0	162 815	162 815
Total comprehensive income		**0**	**0**	**-41 388**	**0**	**162 815**	**121 427**
Transfer of net result to retained earnings		0	0	0	160 075	-160 075	0
Transactions with owners		**0**	**0**	**25 000**	**-25 000**	**0**	**0**
Transfer of net result to statutory supplementary capital		0	0	25 000	-25 000	0	0
As at 31 December 2016	29	**2 256 683**	**2 287 790**	**1 002 488**	**659 412**	**162 815**	**6 369 188**

Notes presented on pages 12- 170 are an integral part of the Financial Statements.

Statement of cash flows

Operating activities	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Profit before tax		**169 593**	**286 969**
Adjustments:		**-332 822**	**320 791**
Depreciation and amortization	8	72 019	98 591
Impairment of tangible and intangible fixed assets and investement securities		-13 219	152 972
Unrealized foreign exchange differences		-411 740	276 754
(Gains) on sale and the liquidation of shares in subsidiary		-1 408	-202 313
Transfer of interest and dividend from investing and financing activities		-93 207	-15 980
Loss on sale, liquidation of tangible and intangible fixed assets		114 733	10 767
Changes in assets and liabilities		**5 215 264**	**2 823 279**
Interbank placements, loans and advances to other banks	35	68 717	916 695
Financial assets held for trading	35	6 732 840	4 388 013
Derivative financial instruments	35	-1 192 257	-12 603
Loans and advances to customers	35	347 838	-1 250 459
Other assets		-13 588	26 819
Amounts due to banks and other monetary institutions	35	74 391	-280 952
Amounts due to customers	35	-1 615 344	-1 919 655
Other liabilities		19 197	136 359
Provisions		-2 932	-2 964
Dividends received		9 024	120
Income tax paid/received		-128 530	5
Interest received		1 372 106	1 416 178
Interests paid		-456 198	-594 277
Net cash flow from operating activities		**5 052 035**	**3 431 039**

Notes presented on pages 12 – 170 are an integral part of the Financial Statements.

Statement of cash flows (cont.)

Investing activities	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Proceeds from sale of investment securities	17	20 536 055	1 452 524
Proceeds from sale of fixed assets and intangible assets		257	1 131
Proceeds from sale and the liquidation of shares in subsidiaries	19	16 008	695 000
Purchase of investment securities	17	-24 999 753	-5 531 972
Purchase of investments in subsidiaries		-5 000	-5 600
Purchase of fixed assets and intangible assets		-54 133	-79 006
Net cash flow from investing activities		**-4 506 566**	**-3 467 923**
Financing activities			
Inflows from subordinated liabilities and long-term bank loans		2 312 702	3 124 670
Outflows from repayment of subordinated liabilities and long-term bank loans		-2 880 146	-3 996 716
Outflows from purchase and payment of interest on debt securities issued	26	-515 550	-15 390
Net cash flow from financing activities		**-1 082 994**	**-887 436**
Net decrease in cash and cash equivalents		**-537 525**	**-924 320**
Cash and cash equivalents at the beginning of the year	35	1 865 666	2 789 986
Cash and cash equivalents at the end of the year	**35**	**1 328 141**	**1 865 666**

Notes presented on pages 12 – 170 are an integral part of the Financial Statements.

Notes to the financial statements

1. General information

The financial statements of **Raiffeisen Bank Polska S.A.** have been prepared for the period from 1 January 2017 to 31 December 2017.

The financial statements have been prepared by Raiffeisen Bank Polska S.A. with its registered office in Warsaw, 00-844, Grzybowska 78 Street, registered in the National Court Register as a joint-stock company under the reference number KRS 0000014540 by the District Court for the capital city of Warsaw, XII Commercial Department of National Court Register.

The Bank has been established for an indefinite period of time.

The Bank operates in retail banking, corporate banking and investment banking as well as in factoring area in Poland and employed 4 535 employees as at 31 December 2017 and 4 948 employees as at 31 December 2016.

These separate financial statements should be read in conjunction with the consolidated financial statements of the Group for the period from 1 January 2017 to 31 December 2017 in order to obtain complete information on the financial standing, results and cash flows of the Group as a whole.

Approval of these financial statements

The Bank's Management Board approved these financial statements on 6 March 2018.

As at 31 December 2017 the Bank's Management Board consisted of:

Piotr Czarnecki	– President of the Management Board, CEO
Maciej Bardan	– First Vice-President of the Management Board
Jan Czeremcha	– Vice-President of the Management Board
Witold Broniszewski	– Vice-President of the Management Board, COO
Łukasz Januszewski	– Member of the Management Board
Piotr Konieczny	– Member of the Management Board, CFO
Werner Georg Mayer	– Member of the Management Board
Michael Höllerer	– Member of the Management Board

Notes to the financial statements (cont.)

As at 31 December 2017, the Bank's Supervisory Board consisted of:

Johann Strobl	– Chairman of the Supervisory Board
Martin Grüll	– Deputy Chairman of the Supervisory Board
Peter Lennkh	– Member of the Supervisory Board
Andreas Gschwenter	– Member of the Supervisory Board
Hannes Mösenbacher	– Member of the Supervisory Board
Władysław Gołębiewski	– Member of the Supervisory Board
Beata Mońka	– Member of the Supervisory Board
Krzysztof A. Rozen	– Member of the Supervisory Board

During the period from 1 January 2017 to 31 December 2017 the following changes in the Management and Supervisory Boards took place.

- On 22 December 2016 Ryszard Drużyński resigned from the position of the Vice-President of the Management Board responsible for the operations and IT management as of 31 January 2017.

- On 14 February 2017 Polish Financial Supervision Authority took a decision about the appointment of Witold Broniszewski as a Member of the Management Board supervising the management of the significant risk relating to the Bank's activities.

- On 7 March 2017 Karl Sevelda - Chairman of the Supervisory Board of the Bank and Herbert Stepic - Member of the Supervisory Board resigned from their duties effective from 9 March 2017.

- On 10 March 2017, the General Meeting of Shareholders of the Bank appointed Johanna Strobl to the position of Chairman of the Supervisory Board and appointed Hannes Mösenbacher as a Member of the Supervisory Board.

- On 29 April 2017, the Bank's Supervisory Board passed a resolution appointing Werner Georg Mayer as a member of the Management Board supervising the management of operations area and IT as of 1 June 2017. Earlier, Polish Financial Supervision Authority (PFSA) informed the Bank that "(…) appointment of the member of the Management Board supervising the management of operations area and IT does not require PFSA's approval, as long as the area of the supervision does not include significant risk for the Raiffeisen Bank Polska S.A. activity".

- On 21 July 2017 the Extraordinary General Meeting of Shareholders of the Bank appointed Beata Mońka and Krzysztof A. Rozen as Members of the Supervisory Board of the Bank as of 1 August 2017.

According to the statements received from Beata Mońka and Krzysztof A. Rozen, they meet the criteria for independent members of audit committees stated in the Act on auditors, audit companies and public

Notes to the financial statements (cont.)

supervision dated 11 May 2017 and fulfill requirements of article 22aa of Banking Law dated 29 August 1997, in particular they have knowledge, skills and experience appropriate to be member of the Bank's Supervisory Boards and assure proper execution of this function.

At the same time Selcuk Sari resigned from his position as a Member of Bank's Supervisory Board.

- On 1 November 2017 Klemens Breuer resigned from his position as a Member of Bank's Supervisory Board.

- On 20 December 2017, the Bank's Supervisory Board took a decision about the appointment of Michael Höllerer as a member of the Management Board, responsible for the newly created Project Portfolio and Projects Management Department.

2. Significant accounting policies

2.1. Basis of preparation of the financial statements

The financial statements of the Bank have been prepared for the financial year from 1 January 2017 to 31 December 2017. Comparative figures have been presented for the financial year from 1 January 2016 to 31 December 2016. The financial statements have been prepared in Polish zloty (PLN), and all amounts are presented in PLN thousand, unless indicated otherwise.

The financial statements have been prepared on a going concern basis using the assumption that the Bank will continue its business operations substantially unchanged in scope for a period of at least one year from the reporting date.

Financial data presented in the financial statements of the Bank were prepared assuring its comparability.

The financial statements of the Bank consider the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations ("IFRS EU"). Changes in published standards and interpretations, which became effective from 1 January 2017 and their impact on the financial statements of the Bank have been presented in note 2.24.1. to the financial statements.

The financial statements do not take into consideration changes in interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (note 2.24.2. to the financial statements).

During the period covered by the financial statements the Bank did not introduce significant changes in the accounting policy concerning valuation of assets and liabilities and profit measurement in comparison with previous financial year.

Notes to the financial statements (cont.)

The financial statements of the Bank have been prepared based on the following valuation methods:

- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets designated upon initial recognition as at fair value through profit or loss and available-for-sale financial assets, except for those for which the fair value cannot be reliably measured,
- at amortized cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost for non-financial assets and liabilities,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell,
- The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

2.2. Statement of compliance

The annual financial statements (‘financial statements’) of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and respective law regulations.

2.3. Items in foreign currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (“the functional currency”). The financial statements are presented in Polish zlotys (PLN), which is the functional currency of the Bank.

Foreign currency transactions are translated into the functional currency using the current exchange rates from the date of the transaction. Foreign currency cash items presented in the statement of financial position are translated into the functional currency at the current exchange rate as at the balance sheet date (i.e. the average exchange rate published by the National Bank of Poland valid at the end of the reporting period).

All foreign currency translation differences, including gains and losses on the settlement of transactions are recognized in the profit or loss statement, under “Net income from financial instruments measured at fair value and net foreign exchange result”, except for foreign exchange translation differences arising from available-for-sale financial assets which are recognized in other comprehensive income.

Notes to the financial statements (cont.)

2.4. Determining the financial result

2.4.1. Interest income and expense

Bank recognizes interest income and expense arising from financial assets if it is probable that future economic benefit will flow to the Bank and the amount can be reliably measured.

Interest income and expense arising from financial instruments measured at amortized cost using the effective interest rate method, financial assets measured at fair value through profit or loss and assets available for sale are recognized in profit or loss statement. Interest income and expense do not include interest related to derivatives that are designated as hedging items in hedge accounting applied by the Bank.

The effective interest rate method is a method for calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts in the expected period to the expiry of the financial instrument to the net carrying amount of the given financial asset or financial liability. In calculating the effective interest rate cash flows are estimated in consideration of the contractual terms of the given financial instrument; however, without accounting for the potential future losses. The calculation includes all interest, commission and fees paid or received between the parties of the contract and all other premiums or discounts.

Fees and commissions arising from loans and advances without defined future cash flows or without defined interest rate change schedule for which calculation of the effective interest rate is impossible are recognized on straight-line basis.

For impaired financial instruments interests are accrued based on the carrying value (i.e. the value less impairment amount) using the interest rate used to discount cash flows for the impairment valuation.

2.4.2. Fee and commission income and expense

Fees and commissions directly related to the recognition of financial assets of liabilities are disclosed in accordance with note 2.4.1 to the financial statement.

Other fees and commissions are recognized either on straight-line or up-front basis.

Fees and commissions arising from received or granted guarantees and letters of credit are recognized on a straight-line basis over the whole product life.

Commissions related to rendering financial services e.g. commission for money transfers, cash transactions, fees related to handling cash, operations relating to debit cards service, brokerage, factoring activities are recognized in the profit or loss statement as one-off when the service is provided.

Notes to the financial statements (cont.)

A loan syndication fee for syndicates arranged by Bank are recognized when the transaction takes place provided that Bank has no further involvement or retains part of the loan at the same effective interest rate for comparable risk as the other participants.

2.4.2.1. Fee and commission income and expense regarding insurance

Income from bancassurance

The Bank generates revenues from the „bancassurance", i.e. selling of insurance products through the Bank's distribution channels. In order to reflect the economic substance and the proper revenue and expense recognition regarding offered insurance products, the Bank has adopted separate rules for the presentation and recognition of bancassurance fees depending on whether there is a link between insurance product and financial instrument offered to the same client or not. If two or more transactions are linked, the criteria for revenue recognition are applied jointly to these transactions.

There is a direct link between insurance product and financial instrument when at least one of two conditions is met:

1) a financial instrument is always offered by the Bank with an insurance product,

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

If none of above mentioned conditions are met, further analysis is performed regarding connections between selling of financial instrument and insurance based on economic substance analysis, including criteria such as:

a) the level of combined product sales, i.e. percentage of financial instruments with insurance in all agreements concerning financial instruments in the Bank's portfolio,

b) average effective annual interest rate for specific financial instruments in the Bank's portfolio divided into instruments with insurance (by financial instruments according to the Bank's product offer, insurance product and insurance groups) and with no insurance (by financial instruments according to the Bank's product offer),

c) the ability to join the insurance cover without financial instrument,

d) if there is no requirement of the Bank for a client to conclude an insurance agreement with purchasing a financial instrument – the number of insurance agreements for which the terms and the rules are similar and which were concluded in other insurance companies than the company which products are offered by the Bank together with financial instrument,

Notes to the financial statements (cont.)

e) the number of resignations and returned commissions – divided into financial instruments according to the Bank's product offer, insurance product and insurance groups,

f) the scope of activities performed for the insurer during the insurance agreement term.

The analysis of the links between insurance product and financial instrument includes also the financial instruments, which are not offered together with an insurance agreement.

The analysis of the links between the transactions concerning selling of insurance products and financial instruments is performed every time when a new insurance product is included in the Bank's offer. It is also verified and updated annually for the entire product portfolio to confirm the economic substance of these products and related transactions.

Insurance products not linked to financial instruments

The revenues from insurance products with no link to credit products offered by the Bank are recognized in accordance with the economic substance over the legal form principle and with the income/cost matching principle. Concerning selling of insurance products, when the Bank is only an insurance agent and is not obligated to provide further services or to perform activities for the insurer after selling the insurance product, the revenues from the sale of insurance products are recognized on the day of commencement or renewal of the insurance policy.

If the sale of insurance products with no link involves a commitment of the Bank to provide additional services, other than concluding an insurance agreement, the Bank recognizes revenues based on the stage of completing the services and as a result the part of the remuneration is deferred and settled over the time, when the Bank is obligated to provide services arising from the offered insurance product. This period is highly correlated with the period when the Bank is exposed to the risk of returning remuneration in case of client's resignation.

In relation to some products clients retain the right to cancel the insurance cover and to reclaim the overpaid premium at any time. For such products the Bank verifies, if the amount of recognized remuneration can be estimated reliably and the economic benefits from the transaction are probable, and performs a reliable estimate of the provision for refunds, which means the amount by which the remuneration should be decreased to reflect the reasonably reliably revenue. Provision estimate for refunds is based on an analysis of historical information about the real returns in the past and predictions as to the trend of returns in the future.

Notes to the financial statements (cont.)

Insurance products linked to financial instruments

Fees earned from sales of insurance products linked to financial instruments are settled according to so called "relative fair value method". Relative fair value method consists of proportional allocation of income from total loan transaction into the following elements: loan element, element of insurance intermediary service, element of provisions for remuneration returns and element of the margin decreasing in the period of insurance policy.

Once a year, on the balance sheet date, the Bank verifies established input parameters and key assumptions in the bancassurance model (excluding provisions for returns, which are estimated quarterly). Additionally, the Bank assesses on each balance sheet date whether the existing policy for recognizing revenues and expenses concerning bancassurance corresponds to the economic substance of these commissions, and whether there is a better method of their recognition.

Commissions from insurance products linked to financial instruments (loan element) are settled using effective interest rate method throughout financial instrument period. Revenues and expenses of this type are presented respectively in interest income or expenses. Intermediary service element is recognized upfront in commission income. The element concerning of the margin decreasing of insurer is settled using straight-line method during the period of insurance protection.

2.4.3. Net income from financial instruments measured at fair value and from foreign exchange result

Net income from financial assets measured at fair value through profit or loss as well as net foreign exchange results includes gains and losses arising from the sale or change in the fair value of financial instruments designated upon initial recognition as at fair value through profit or loss, and gains and losses on the sale and change in the fair value of instruments held for trading.

This result includes realized and unrealized gains/losses on foreign exchange derivatives, interest rate derivatives, debt instruments and equity instruments, as well as the gain/loss on hedging instruments.

The result on hedging instruments includes the offsetting effects of changes in the fair value of the hedging instrument and the hedged item which have an impact on the profit or loss statement, i.e. the ineffective portion of the hedge.

Net foreign exchange results comprise the positive and negative foreign currency translation differences, both realized and unrealized, arising from revaluation of assets and liabilities denominated in foreign currencies and gains / (losses) realized on spot transactions. Revaluation is performed on a daily basis using the average exchange rate announced by the NBP on the balance sheet date (in accordance with the policies described in note 2.3 to the financial statements).

Notes to the financial statements (cont.)

Net foreign exchange result also includes the foreign exchange component of the fair value measurement of derivative instruments (FX forward, FX swap, CIRS – currency interest rate swap and currency options).

2.4.4. Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items

Net provisioning for impairment losses on financial instruments and provisions for off-balance sheet exposures is recorded as a result of impairment recognition of financial assets, mainly from loan exposures to banks and clients impairment recognition of amounts due from banks, loans and advances to customers and valuation of off-balance sheet exposures (see note 2.8 to the financial statements) and proceeds from sale of Bank's receivables.

2.4.5. Other operating income and expenses

Other operating income comprises mainly amounts received from sales of services unrelated to the Bank's core operations of the Bank's as well as result on the sale, disposal or impairment of non-current assets (including assets acquired for debt) and reversal of impairment of such items, release of other provisions and revenue from debt collection.

Other operating expenses comprise mainly collection costs, expenses resulting from incurring a loss on sale or disposal of non-current assets (including assets acquired for debt) and of intangible assets, costs relating to penalties, fines and compensations as well as costs of creating other provisions.

2.4.6. Other profit / (loss) components

2.4.6.1. Employee benefits

Short-term employee benefits include: remuneration, bonuses, paid holiday leave and social insurance contributions, and are recognized as an expense upon being incurred. The Bank calculates provision for unused holiday leave. These provisions are presented in "Provisions".

2.4.6.2. Dividend income

Dividend income is recognized in the profit or loss statement on the ex-dividend date.

2.5. Recognition, presentation and valuation of financial assets and liabilities

All financial instruments are recognized using settlement date accounting, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Notes to the financial statements (cont.)

Offsetting of financial assets and liabilities is performed when the Bank has a valid and legally enforceable right to set-off that is not contingent on a future event. Additional requirement is that the Bank and its counterparties have intention to compensate or to process receivables and payables in a single settlement process or cycle with total elimination or significant decrease of credit or liquidity risk (refer to note 38 to the financial statements).

Long-term financial assets and liabilities consist of financial assets and liabilities with maturities exceeding 12 months from the balance sheet date.

2.6. Financial assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention when acquiring them.

The Bank classifies its financial assets into the following categories: financial assets measured at fair value through profit or loss, assets available for sale, held to maturity investments, and loans and other receivables.

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

This category comprises three sub-categories: financial assets held for trading, financial instruments designated upon initial recognition as at fair value through profit or loss and derivative financial instruments, not designated as hedging items according to IAS 39.

Financial assets held for trading comprise financial assets purchased for the purpose of selling them in a near term, financial assets constituting part of the portfolio of specific financial instruments managed jointly and for which there is evidence of a recent actual pattern of short-term profit-taking and derivative financial instruments which are not financial guarantee contracts or hedging instruments.

Financial instruments are designated upon initial recognition as at fair value through profit or loss only if:

- applying such a qualification eliminates or significantly reduces measurement or recognition inconsistencies of related gain/losses (the accounting mismatch);
- a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management policies or investment strategy and in accordance with the adopted internal reporting system on the portfolio condition;
- a financial asset which is recognized jointly includes one or more embedded derivatives and the embedded derivative does not significantly change the cash flows resulting from the underlying contract, and its separation is not allowed.

Notes to the financial statements (cont.)

Financial instruments designated upon initial recognition as at fair value through profit or loss as well as after initial recognition are measured at fair value. The effects of the measurement and exchange rates which are connected with this measurement are recognized in the profit or loss statement, in "Net income from financial instruments measured at fair value and net foreign exchange result".

A financial asset is removed from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership. Derecognition of securities is based on average price.

2.6.2. Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as:

- loans and receivables,
- financial assets held to maturity,
- financial assets at fair value through profit or loss.

Financial assets available for sale contain debt and equity instruments for which the holding period has not been determined. They serve the liquidity management or are bought and sold in the response to changes in market prices.

Financial assets classified as available for sale are measured at fair value apart from those assets where the fair value cannot be reliably measured, which are presented at purchase price, decreased with impairment allowances. Effects of changes in fair value, excluding impairment allowances, are recognized in other comprehensive income until the assets matures or is otherwise disposed of. Accumulated gain / loss is then transferred to profit or loss statement in line "Net income from financial instruments measured at fair value and net foreign exchange result".

2.6.3. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity and which do not meet the definition of loans and receivables.

Due to the Bank's policy and IFRS EU requirements, which does not allow selling financial instruments classified as held to maturity, there is no possibility to infect the held to maturity financial asset portfolio as a result of selling a significant portion of assets classified to this portfolio. However, should the Bank sell such assets, then all assets from the respective category would be reclassified to available for sale financial

Notes to the financial statements (cont.)

assets and for the following two consecutive financial years the Bank is not allowed to classify any financial assets as held to maturity.

Held to maturity financial assets are recognized in the statement of financial position as at the date of settlement of the purchase transaction of the asset. Financial assets are initially recognized at fair value adjusted for transaction costs directly attributable to the purchase or issuance of the given asset.

Upon initial recognition, the Bank measures the financial assets at amortized cost using the effective interest rate, taking into account impairment of the assets. The effects of the measurement are recognized in the profit or loss statement.

A financial asset is derecognized from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership.

2.6.4. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than:

- financial assets which the Bank intends to sell immediately or in the near term (financing granted by the Bank to a customer for the purpose of generating short-term gains; classified as held for trading) and those which the group classified as financial instruments designated upon initial recognition as at fair value through profit or loss;
- financial assets designated by the Bank as available for sale upon initial recognition; or
- assets in respect of which the holder may not recover substantially the whole amount of the initial investment for a reason other than credit deterioration (classified as available for sale).

Loans and advances to other banks and customers, including purchased receivables and investments in debt securities not quoted on an active market are part of the loans and advances category.

Loans and advances are recognized when the cash is disbursed to the debtor.

Upon initial recognition, the Bank measures the financial assets at amortized cost using the effective interest rate, taking into account impairment, and the effects of the measurement are recognized in the profit or loss statement.

A financial asset is derecognized from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership, and also when the Bank does not expect any further cash flows from the financial asset.

Notes to the financial statements (cont.)

2.7. Reclassification of financial assets

The Bank may reclassify available for sale financial assets to the loans and advances category if the given asset meets the definition of loans and receivables, and the Bank has the intention and ability to hold the asset during the foreseeable future or until its maturity. The Bank may also reclassify available for sale financial assets to the category of financial assets held to maturity if the change in intention or ability occurred or two consecutive financial years have passed, as discussed in note 2.6.3 to the financial statements.

In case of reclassifying an available for sale financial asset with a specified maturity date, all gains and losses related to the asset which had been recognized in other comprehensive income are amortized and recognized in the profit or loss statement over the remaining life of the held to maturity investment, using the effective interest method. All differences between the new amortized cost and the maturity amount are amortized over the remaining life of the financial asset using the effective interest method, similarly as when amortizing a premium or discount.

The Bank may reclassify financial assets measured at fair value through profit or loss if exceptional events occur.

A financial asset is reclassified in its fair value as at the reclassification date. Gains or losses which had been recognized in the profit or loss statement until reclassification are not reversed. As at the reclassification date, the fair value of financial assets is deemed to be its new cost or new amortized cost respectively.

2.8. Impairment of financial assets

At each balance sheet date, the Bank assesses whether there are objective impairment triggers of a financial asset or group of financial assets.

Impairment of a financial asset or group of financial assets can be recognized only if there is objective evidence of impairment as a result of an event or events that occurred after the initial recognition of the given asset ("loss event") and if the event (or events) affects the future cash flows attributable to the asset or the group of assets that can be reliably estimated.

It may not be possible to identify a single event causing impairment – in such cases impairment is determined by the accumulated effect of several events. Losses expected as a result of future events, no matter how likely, are not recognized.

Based on the requirements of IAS 39 "Financial instruments: Recognition and Measurement requirements and recommendations" included in Recommendation R of Polish Financial Supervision Authority, the Bank defined the following loss events catalogue, which reflects the operating profile of the Bank.

Notes to the financial statements (cont.)

For retail portfolio the Bank has defined the following impairment triggers:

- delays in payment over 90 days,
- fraud or attempt of fraud committed by the borrower,
- death of the borrower,
- termination of the loan agreement by the Bank,
- questioning of the credit exposure by the counterparty in court,
- debt enforcement proceedings being initiated against the borrower,
- significant deterioration of scoring assessment,
- restructurization of exposure after 90 days past due,
- significant financial difficulties of the borrower,
- limit blockage for renewable products.

For the corporate loans portfolio, the Bank identifies impairment triggers based on the following criteria:

- significant financial difficulties of the client based on negative assessment of client's financial situation,
- failing to meet terms of the agreement,
- changes in the agreement with concession towards clients, due to economic or legal reasons resulting from client's financial difficulties, concession which in other case would not be granted. As concession is treated each change in agreement with client facing financial difficulties,
- high probability of bankruptcy or other financial reorganization of the client,
- no active market for particular balance sheet exposure due to client's financial difficulties,
- information about opened bankruptcy or liquidation processes,
- agreement termination,
- significant decrease of rating analysis,
- questioning of the balance sheet exposure by the client in court,
- Bank's request to initiate enforcement proceedings towards client,
- unknown client's place of residence or assets
- decrease of the client's rating by known and commonly accepted external agency assessing credibility (rating agency),

Notes to the financial statements (cont.)

- there are macroeconomic signals negatively impacting operating risk of the client,
- there are other negative news about client, other signals, which could negatively influence operating risk of the client,
- significant change in value or quality of significant collateral,
- decrease in cash turnover of accounts in Bank,
- for Financial Institutions – loss of license,
- for governments and central banks – payment moratorium.

Details of the impairment triggers are included in Bank's internal regulations.

The process of impairment triggers identification for corporate portfolio is supported by the early warning system implemented by the Bank.

The impairment assessment for financial assets is performed under the individual and group analysis. The individual analysis is applicable for individually significant assets according to segmentation criteria adopted by the Bank and the size of the exposure to the client. The group analysis includes the following types of exposures:

- exposures for which no impairment triggers have been identified – exposures are assessed in group analysis process to estimate provision for incurred but not reported losses (IBNR model),
- individually insignificant exposures for which impairment triggers have been identified.
- the exposures for which impairment has not been identified after individual analysis.

2.8.1. Assets measured at amortized cost

If there is objective evidence of impairment of loans and receivables or financial assets held to maturity measured at amortized cost, the impairment loss is calculated as a difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding the non-incurred future loan losses). As a rule the initial effective interest rate is used for discounting expected cash flow.

The calculation of current value of estimated future cash flows relating to a secured financial asset includes the cash flows from acquired collateral less the costs of its acquisition and sale, regardless of whether the repossession of the collateral is probable or not.

After calculating and determining the amount of the impairment loss, the carrying amount of the asset is reduced by the impairment allowance, which is recognized in the profit or loss statement.

Notes to the financial statements (cont.)

Impairment losses are recorded in separate accounts. For balance sheet purposes and in order to determine the current book value of a given financial asset they are presented together with the financial assets which have been impaired.

If in a subsequent period the amount of the impairment loss decreases, due to an event occurring after the impairment was recognized (e.g. improvement of the creditworthiness of the debtor), the previously recognized impairment loss is reversed and the effects of the reversal are recognized in the profit or loss statement. The carrying amount of the asset determined as a result of the reversal of an impairment allowance shall not exceed the carrying amount which would be determined according to amortized cost if the impairment allowance has not been recorded.

Loans and advances which are uncollectable, after limitation period or for which Bank decided to stop further collection, are subject to write off against the impairment allowance. Subsequent recoveries of amounts previously written off are presented in the profit or loss statement, in other operating income.

2.8.1.1. Individual impairment assessment

a) Non-retail exposures

Impairment triggers for individually significant credit exposures are identified in the standard process of loan portfolio monitoring regarding the financial situation of the client and in the process of restructuring credit exposures arising from client's financial difficulties.

In case of identifying impairment triggers, the individual credit allowance calculation includes comparing the carrying amount of the analyzed credit exposure conjunction with the expected cash flows discounted to the present value using the original effective interest rate of the contract.

The method of estimating future cash flows is based on defining the value of expected cash flows resulting from:

- the voluntary repayment made by the borrower,
- realization of collateral.

The recovery is determined judgmentally, including collection scenarios defined by the Bank and the assumptions related to the results of the borrower's financial situation assessment.

If the total discounted value of expected cash flows from the voluntary repayments made by the client and from the realization of collateral is lower than the carrying amount of the credit exposure, the impairment is recognized and the credit allowance is booked.

If during individual analysis the Bank does not identify any objective impairment triggers for an individually assessed financial assets' component or impairment triggers were identified, but based on individual

Notes to the financial statements (cont.)

assessment impairment loss was not recognized, the component is included in the group of financial assets, which are the subjects of collective impairment analysis. If the impairment is recognized for the assets' component analyzed individually, the component is not included in the collective analysis.

b) Retail exposures

Identification of impairment triggers for individually significant exposures is performed on a customer level throughout periodical analysis regarding these engagements.

In case of identification of the triggers, impairment allowance is determined through comparison of book value of the analyzed loan engagement with the expected value of future cash flows discounted to current value by initial effective interest rate of the contract.

Future cash flows from secured exposures are determined based on expected recoveries from the collaterals. In case of not-secured exposures the estimated recoveries from exposures are taken into account.

The impairment is recognized and the allowance is booked when the total discounted value of the expected cash flows is lower than the book value of the loan exposure.

If the impairment trigger for individually significant exposure was not recognized, it is included in the group of financial assets assessed with regard to impairment with group method.

2.8.1.2. Collective impairment assessment

In the collective approach the group of financial assets with similar credit risk characteristics are identified and collectively assessed for impairment.

Allocation of financial assets into groups with similar credit risk characteristics is carried out according to the segmentation rules used by the Bank including: type of the product, type of the client, loan delinquency and other significant factors. Those characteristics are relevant to the estimation of future cash flows for defined groups of assets, because they indicate the debtors' ability to repay all of their liabilities according to the contractual terms concerning analyzed assets.

The Bank has separate group models for impairment assessment for exposures with no identified impairment triggers and for exposures with identified impairment triggers:

a) exposures for which no impairment triggers have been identified (IBNR)

As far as collective approach regarding exposures for which no impairment triggers have been identified is concerned, the amount of the impairment is calculated using parameters: PD (probability of default) and LGD (loss given default). For non-retail exposures Historical Default Rate (HDR) parameter is used instead of PD (historical indicators reflecting the percentage of events of failure to comply with obligations in a given time period).

Notes to the financial statements (cont.)

The PD/HDR parameters are estimated using statistical methods based on historically observed (considering the most recent observation) percentage of impaired loans for groups with similar credit risk characteristics. For each group the PD parameter is calculated in the time horizon corresponding to the loss identification period (LIP).

In order to reflect the amount of loss at the moment of impairment identification, the Bank determines the LGD parameter for each exposure group.

The most important information on the key assumptions and methods of determining by the Bank the PD, LIP and LGD parameters are presented below:

- PD and LIP parameter – retail exposures:

The PD parameter estimation is performed using the latest available history at the time of estimation. The PD parameter is estimated as the average of six indicators reflecting percentage of exposures for which an impairment trigger occurs in the period corresponding to LIP (the average is weighted by the number of exposures from the date of observation). The PD parameters are updated monthly.

The LIP parameter for retail exposures overdue but without impairment identified was established based on average time from the moment of overdue to identification of debtor's impairment. For other detail exposures it was established based on performed analysis aimed at defining moment of the occurrence of an event preceding a debtor's impairment. As at 31 December 2017 the LIP amounted to appropriately 9 months for mortgage loans and 6 months for other retail exposures.

- PD/HDR and LIP parameter – non-retail exposures:

The HDR/PD parameters used in credit allowance calculation are determined based on the client's credit rating given in the credit assessment process. Credit rating results from the rating scale defined in a given rating system and is updated every quarter. The HDR/PD parameters assigned to each rating class are updated on an annual basis.

The LIP parameter for non-retail exposures equals 9 months and considers the period from occurrence of an event causing loss to giving status of impairment. For its definition the functioning processes concerning monitoring of loan exposures of non-retail clients (frequency of verification and reporting) as well as individual analysis performed on a sample of data regarding identification of real moment of an event occurrence were taken into account.

For exposures to corporate and financial institutions, the Bank determines the HDR parameter based on the results of statistical estimation.

For other non-retail exposures, including investment projects, insurance companies, public sector entities, due to the fact that there is no representative sample of clients for which historically an impairment has

Notes to the financial statements (cont.)

been recognized, the PD parameter is determined based on assumptions of internal rating systems and experts' expectations regarding the level of expected loss ratio.

- the LGD parameter – retail exposures:

The approach to assigning the LGD parameter differs for secured and unsecured exposures. The LGD parameter for secured exposures is designed to reflect loss due to the failure in recovering the full value of the collateral. For exposures secured by mortgage LGD parameter is calculated based on historical recovery rates (RR), based on actual data from sale process (straight from bailiffs or external real estate brokers) referred to the last used by the Bank (before sale date) collateral valuation.

As far as unsecured exposures are concerned, the LGD parameter is calculated based on historically observed recoveries, decreased by the costs incurred by the Bank to recover its receivables, including the percentage of clients who have settled the outstanding balance due to the Bank in a period of 12 months after the impairment identification. The estimation is performed on the portfolio of accounts for which the Bank has recognized the impairment. The criteria for defining homogeneous groups of clients are established at the level of the product portfolio and the number of months from the impairment identification for the specific account. As the result, for a given product segment the LGD parameter is a curve that increases over time from the moment of the impairment identification. As far as the credit portfolio for which no impairment triggers have been identified is concerned, there is a parameter assigned, which aggregates information about recoveries occurring over the entire recovery period. Moreover, the recoveries are adjusted with historically observed results of selling of impaired loans portfolio and the prices obtained by the Bank from these sales.

- LGD parameter – non-retail exposures:

The LGD parameter is assigned at the level of single credit exposure based on the information about client's collateral value and category. Based on the information about collateral category, there is assigned a parameter reflecting expected cash flows from the collateral realization and the average recovery period. The above-mentioned parameters are determined judgmentally. Depending on the collateral level for individual exposure, the Bank identifies as a recovery source the cash flows from collateral and the voluntary repayment made by the client. In case of repayments from sources other than realization of the collaterals, the assumptions regarding expected recovery level and recovery period are defined judgmentally. The effective value of the LGD parameter assigned to the contract includes recovery from the collateral and other sources, as well as the time value of money.

Notes to the financial statements (cont.)

b) Exposures for which an impairment triggers have been identified

As far as exposures for which impairment triggers have been identified are concerned, the impairment value is determined with a collective method using discounted expected future cash flows calculated based on historical loss or recoveries.

The approach to the impairment calculation differs for secured and unsecured exposures. For secured exposures the impairment is calculated as a difference between the carrying amount of the exposure and the discounted value of expected recovery from collateral (including the average recovery period and recovery rate for the specific collateral type, determined judgmentally). Moreover, it includes the probability of return to a regular debt service and the probability of returning to the impaired category after the "curing" was recognized.

As far as unsecured credit exposures are concerned, the assumptions used for calculation of the LGD parameter have been described in the section dedicated to IBNR model. However, for impaired exposures the estimated LGD parameter value is taken from the part of the LGD curve, which corresponds to individual information about the number of months from the impairment identification (months in default) for each account.

c) Exposures with identified triggers, without impairment

Non-retail exposures with identified impairment triggers for which impairment was not recognized at the moment of allowance estimation, are subject to group assessment. The basis of allowance for these exposures is the ratio of individual allowance coverage in the subsequent periods after impairment trigger recognition.

The calculation of the impairment allowance is verified as a part of the models' risk management process, because the models used by the Bank to calculate credit allowance and estimate risk parameters are subject to the risk of data quality, assumptions, methodology and administration. As a part of the models' risk management process the Bank performs an assessment of the models' administration process and validates historical parameters to minimize the risk of using incorrect parameters. The models' risk management process is supervised by the Models' Validation Committee.

2.8.2. Impairment of assets available for sale

If the decrease in fair value of available for sale assets is recognized in equity and there is objective evidence of its impairment, the accumulated losses which had previously been recognized directly in equity are transferred from equity and recognized in the profit or loss statement, even if the financial asset was not derecognized from the statement of financial position.

The accumulated losses transferred from equity to profit or loss are determined at the amount of the difference between the acquisition cost (net of all repayments of principal and depreciation) and the present

Notes to the financial statements (cont.)

fair value (net of all respective impairment losses which had been previously recognized in the profit or loss statement).

In respect of impairment of a financial asset classified as available for sale which had been previously remeasured to fair value and the positive revaluation was recognized in equity, the impairment loss first decreases equity and then – if the amount of previously recognized positive revaluation is insufficient to cover the impairment loss – the difference is recognized in the profit or loss statement, in '"Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items".

The impairment losses on equity instruments classified as available for sale financial assets are not reversed.

In respect of debt instruments, if in the following period the fair value of an available for sale debt instrument increases and the increase may be objectively attributed to an event which occurs after the impairment loss has been recognized in the profit or loss statement, the impairment loss has to be reversed and the amount of the reversal is recognized through the profit or loss.

2.9. Investments in subsidiaries

Subsidiaries are entities in respect of which the Bank possesses, directly or indirectly, more than 50% of votes at the General Shareholders Meeting or in case of which the Bank exercises control over its core business operations.

The Bank exercises control over investee only when at the same time the Bank:

- has power over the investee,
- from its involvement with the investee it is exposed to variable returns or has rights to these returns,
- has the ability to use its power over investee to affect its returns.

Investments in subsidiaries are recognised at cost less impairment. In case of impairment of investment in subsidiaries the value of impairment allowance is presented in statement of profit or loss in position "Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items".

2.10. Repo and reverse repo transactions

Reverse repo and repo transactions are sale or purchase transactions of securities with a simultaneous promise of resale or repurchase at a given date and contractual price.

As at the moment of commencement, sell buy back or repo transactions are recognized in "Amounts due to banks and other monetary institutions" or "Amounts due to customers", depending on the counterparty of the transaction.

Notes to the financial statements (cont.)

Buy sell back, or reverse repo transactions are presented in assets: as "Amounts due from banks" or "Loans and advances to customers", depending on the counterparty of the transaction.

Repo and reverse repo transactions are measured in the same method as other items presented in the given group of assets or liabilities. The difference between the sale and repurchase price is recognized over the period of the contract using the effective interest rate in interest income/expense respectively.

The Bank assesses the degree of risks and rewards related to the asset that remain within the Bank. Securities which are a part of repo or reverse repo transactions are not derecognized from the statement of financial position and are measured on the terms and conditions specified for particular securities portfolios.

2.11. Derivative financial instruments

2.11.1. Recognition and measurement

Derivative instruments are classified as held for trading and presented separately in the statement of financial position on the assets or liabilities side. Derivative instruments are measured at fair value excluding transaction costs which will be incurred on their sale. A derivative instrument is an asset if its fair value is positive and a liability if its fair value is negative.

The most appropriate basis for determining the fair value of a financial instrument upon initial recognition is its transaction price (i.e. the fair value of the payment made or received). In other situation, its fair value may be determined on the basis of a valuation model, the data for which was obtained from an active market. The techniques used are based, among other things, on models of discounted cash flows, profitability curves and option modeling.

Changes in the fair value are recognized in the profit or loss statement – this amount is included in the net income from financial instruments measured at fair value (with the exception of a different manner of recognition in case of hedge accounting – see note 2.11.3. to the financial statements).

Underlying amounts of derivative transactions are shown in off-balance sheet items from the transaction date till maturity.

2.11.2. Embedded derivatives

Embedded derivatives are components of a compound instrument which also includes the underlying contract that is not a derivative which causes part of the cash flows from the compound instrument change in a manner similar to the cash flows from the independent derivative, e.g. based on the interest rate, foreign exchange rate, credit or price index, price of the financial instrument, credit rating or another variable – on condition that the variable is not specific to any of the parties to the contract.

Notes to the financial statements (cont.)

Whether a given contract includes an embedded derivative is determined upon the commencement of the contract. A second assessment is made only if there are changes to the contract which have a significant impact on the cash flows stated in the agreement.

A derivative is shown separately when the following terms and conditions are jointly met:

- the compound instrument is not measured at fair value through profit or loss;
- the economic character and risks of the embedded instrument are not closely related to the economic character and risks of the underlying contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative instrument.

Separated embedded instruments are measured according to the policies for derivative instruments, while the underlying contract – accounting principles applicable to specific agreements.

The measurement is presented in the statement of financial position in "Derivative financial instruments". Changes in the fair value of separated derivative instruments are recognized in the profit or loss statement in "Net income from financial instruments measured at fair value and net foreign exchange result".

In this category the Bank includes instruments embedded in structured instruments.

2.11.3. Hedge accounting

The Bank may use derivative financial instruments to hedge against foreign exchange and interest rate risks resulting from its operating, financing and investing activities. For this purpose the Bank uses fair value hedges and cash flow hedges.

2.11.3.1. Criteria

The Bank may use hedge accounting when all the terms and conditions set out below are met:

- upon setting up a hedge, the hedge relationship was officially established and documented as well as the purpose of the entity's risk management and its hedging strategy were defined. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the manner in which the entity will assess the effectiveness of the hedging instrument in compensating the threat of changes to the fair value of the hedged item or the cash flows related to the hedged risk,
- a hedge is expected to be highly effective in compensating changes to the fair value or cash flows resulting from the hedged risk in accordance with the initially documented risk management strategy relating to the concrete hedge relationship,

Notes to the financial statements (cont.)

- in case of cash flow hedges, the planned hedge transaction must be highly probable and must be exposed to changes in cash flows which as a result may have an impact on the profit or loss statement,
- the effectiveness of a hedge may be reliably assessed, i.e. the fair value or cash flows related to the hedged item and resulting from the hedged risk, and the fair value of the hedging instrument, may be reliably measured,
- the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is determined.

The Bank designates certain derivative instruments to the fair value or cash flow hedges. Upon setting up the hedge, a hedge relationship is officially established and the purpose of the Bank's risk management and its hedging strategy is determined. The documentation includes the identification of the hedging instrument, the hedged item or transaction and the nature of the hedged risk. Upon establishing the hedge and then on a current basis, the Bank also documents and assesses the effectiveness of the hedging instrument in compensating the threat of fair value changes of the hedged item.

2.11.3.2. Fair value hedge

Fair value hedge constitutes hedges against the risk of changes to the fair values of recognized assets or liabilities, or a probable future commitment, or an isolated part of such an asset, a liability or probable future commitment which may be attributed to a specific risk, and which could have an impact on the profit or loss statement.

Gains or losses resulting from revaluation of the hedging instrument to its fair value (in respect of a hedging derivative instrument) or the foreign exchange component of its carrying amount (in respect of financial instruments other than derivatives) are presented in the profit or loss statement.

In respect of a hedged item which otherwise would be measured at amortized cost, gains and losses related to the hedged item and resulting from the hedged risk adjust the carrying amount of the item and are recognized in the profit or loss statement.

In respect of a hedged item constituting an available for sale financial asset, gains and losses resulting from the hedged risk are recognized in the profit or loss statement.

The difference between a change in the fair value of a hedging instrument and a change in the fair value of a hedged item, which presents the hedge ineffectiveness, is recognized in consolidated profit or loss statement in "Net income from financial instruments measured at fair value and net foreign exchange result".

Notes to the financial statements (cont.)

2.11.3.3. Cash flow hedges

Cash flow hedges constitute hedges against the risk of cash flow fluctuations which may be attributed to a specific risk related to a recognized asset or liability or a highly probable planned transaction, and which could have an impact on the profit or loss statement.

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in other comprehensive income concerning the part including the effective part of the hedge. Amounts recognized directly in other comprehensive income are transferred to the profit or loss statement in the same period or periods in which the planned hedged transaction affects the profit or loss statement. The ineffective part of a hedge is recognized in the profit or loss statement, in "Net income from financial instruments measured at fair value and net foreign exchange result".

2.11.3.4. Discontinuing hedge accounting

The Bank discontinues hedge accounting, when:

- the hedging instrument expires, is sold, released or exercised – in such an instance accumulated gains or losses related to the cash flow hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction is executed,
- the hedging instrument ceases to meet the criteria for hedge accounting – in such an instance accumulated gains or losses related to the cash flow hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in a separate item in other comprehensive income until the planned transaction is executed,
- the planned transaction is no longer considered probable (in respect of cash flow hedges) – in such case all the accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the profit or loss statement,
- the Bank invalidates a hedge relationship – in such case all the accumulated gains or losses related to the hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the profit or loss statement (unless the cash flow hedge was related to the realization of the planned transaction – in such case all the accumulated gains or losses related to the hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in a separate item in other comprehensive income until the planned transaction is executed or until the

Notes to the financial statements (cont.)

planned transaction is no longer considered probable – in such case it is reclassified to the profit and loss statement).

If a replacement of one hedging instrument with another or extending the validity of a given instrument is a part of documented hedging strategy adopted by the entity, it is not considered as an expiry or release of a hedging instrument.

2.12. Financial liabilities

Financial liabilities are classified to categories: financial liabilities at fair value through financial result and other financial liabilities.

The Bank decides on classifying a financial liability at the moment of its initial recognition.

Derivative instruments are classified as financial liabilities at fair value through financial result. Derivative financial instruments are measured at fair value through financial result (unless they are designated as effective hedging instruments; see note 2.11.3. to the financial statements).

Liabilities other than those measured at fair value through financial result including mainly amounts due to banks and customers and subordinated liabilities are classified to other financial liabilities. Financial liabilities are initially recognized at fair value plus or minus transaction costs related directly to the issuance of a given financial liability.

After initial recognition, other financial liabilities are subsequently measured at amortized cost, using the effective interest rate method.

2.13. Contingent liabilities

In the course of its operating activities, the Bank concludes transactions which at the moment of the conclusion are not recognized in the statement of financial position as assets or liabilities, but are contingent liabilities. A contingent liability is:

- a potential commitment which arises as a result of past events the existence of which will be confirmed only upon the occurrence of one or more uncertain future events which are not fully controlled by the Bank, or
- a current commitment which arises as a result of past events, but is not recognized in the statement of financial position because the expensing of cash or other assets to meet this commitment is improbable or the amount of the liability cannot be reliably assessed.

The Bank's key off-balance sheet liabilities constitute credit lines granted and granted financial guarantees which require that the provider makes specified payments to cover the loss incurred by the holder as a result of its defaulting on its payments in accordance with the terms and conditions of the debt instrument.

Notes to the financial statements (cont.)

Such financial guarantees are given by the Bank to other banks, financial institutions and other organizations on behalf of customers with the aim of securing loans, overdrafts and other banking financing products.

Financial guarantees are initially recognized at fair value on the date the guarantee is given. After initial recognition the Bank's liabilities resulting from such guarantees are measured at a value greater of: value of expected amount of financial means outflow and initial value adjusted, where applicable, for accumulated impairment.

For off-balance sheet liabilities exposed to the risk of the counterparty default the provisions are recognized. The provision for off-balance sheet liabilities is calculated based on the set limit and recoverable receivables understood as the present value of estimated future cash flows discounted using market interest rates. Future cash flows relating to off-balance sheet liabilities are calculated on the basis of the available limit and the term of maturity of the liability and the likelihood of outflow of funds from the Bank.

Within off-balance sheet exposures the Bank also presents non-financial guarantees, e.g. performance guarantees, tender guarantees, warranties and "standby" letter of credits.

2.14. Method of determining the fair value and amortized cost

The Bank decides on the classification of a financial asset at the moment of its initial recognition. Upon initial recognition financial assets are measured at fair value as a general rule. After initial recognition financial assets measured at fair value through profit or loss and financial assets available for sale are, as a rule, measured by the Bank at fair value.

Market prices published by reliable sources such as Reuters, Bloomberg services, WSE, etc. are used to measure financial instruments at fair value. Financial instruments are measured with reference to the prices published in the above services on the BID page in respect of assets. The following are used to measure financial instruments:

- closing prices for regulated markets,
- fixing prices for the OTC market,
- prices given by intermediaries (Brokers) for OTC markets if there are no fixing prices.

If a reliable market price is not available for a financial instrument, the instrument is measured based on the theoretical price constructed on the basis of the profitability curve. The profitability curve is based on market quotations from the money market and swap contracts for particular currencies. The model is adjusted by credit risk.

The Bank does not measure equity instruments not quoted on an active market at fair value, because they cannot be reliably measured. These instruments are measured at cost net of impairment losses.

Notes to the financial statements (cont.)

After initial recognition the Bank measures financial assets held to maturity, loans and receivables at amortized cost.

The amortized cost method is a method for determining the value of a financial instrument by deducting repayment of the principal amount from its value at initial recognition, adding or deducting accumulated amortization of all differences between the initial cost and the value of the instrument at maturity calculated using the effective interest method, and deducting impairment losses.

2.15. Derecognizing financial instruments from the statement of financial position

A financial asset is derecognized from the statement of financial position when the contractual rights to the cash flows from the financial asset expire, or when the Bank transfers the financial asset to another entity. The transfer takes place when the Bank transfers the contractual rights to receive cash flows from the asset or when the Bank retains the contractual rights to the cash flows from the financial asset, but accepts the contractual obligation to transfer those flows to an entity outside the Bank.

When transferring a financial asset, the Bank assesses to what extent it retains the risks and rewards related to ownership. In this case:

- if the Bank transfers substantially all the risks and rewards of ownership, it eliminates the respective financial asset from its statement of financial position and at the same time recognizes separately as assets and liabilities all the rights and obligations retained by the Bank or those which arose during the transfer,
- if the Bank retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset in its statement of financial position,
- if the Bank does not transfer or retain substantially all the risks and rewards of ownership of the financial asset, it determines whether it retained control over the said financial asset. If the Bank has retained control, the financial asset is recognized in the statement of financial position up to the amount resulting from continued exposure, and if the control no longer exists the financial asset is derecognized from the statement of financial position and at the same time all rights and obligations retained by the Bank or arising during the transfer are separately recognized as assets or liabilities.

The Bank derecognizes a financial liability (or its part) from its statement of financial position when the liability specified in the contract has been settled, annulled, or has expired.

Notes to the financial statements (cont.)

2.16. Intangible assets

Intangible assets are non-cash assets without a physical form, but identifiable and controlled by the Bank, leading to future inflows of economic rewards to the Bank directly related to the assets.

The Bank includes in Intangible assets specifically:

- software licences,
- copyright laws to computer software or other work,
- cost of completed development projects,
- customer relationship base.

Till 31 March 2017 the Bank included in intangible assets also Polbank brand.

A component of intangible assets is initially recorded at historical cost – i.e. purchase price or cost of development.

The cost of purchase or production of computer software treated as intangible assets includes:

- the purchase price of license or copyright laws due to the supplier net of rebates and discounts granted plus import customs and excise duty and non-recoverable VAT,
- all other directly attributable expenses or costs related to adapting acquired software for use or its proprietary development, in accordance with the purpose planned by the Bank, accrued as of the date of purchase or commencement of production to the date of commissioning for use.

Direct expenses or costs comprise specifically:

- costs of external consultations,
- costs of launching and testing the software,
- employee benefit expenses relating to the Bank's employees, in respect of the software purchased or manufactured under the given IT project, incurred exclusively in connection with its adaptation to the Bank's requirements or its proprietary development. These costs include short-term employee benefits (personnel costs) covering: wages and salaries, overtime, bonuses related to specific software, other employee benefits connected with the above.

Costs connected with current maintenance are recognized in profit and loss when incurred.

After initial recognition a component of intangible assets is presented at purchase price or production cost (historical cost) decreased by accumulated amortization and total amount of impairment (model of purchase price or development cost).

Notes to the financial statements (cont.)

Assets are amortized during their useful life. Accumulated impairment losses result from impairment test conducted (in case significant evidence of impairment is discovered during periodic reviews of intangible assets).

Intangible assets with an undefined useful life are not amortized, they are subject to tests of potential impairment on each balance sheet date.

Tests for potential impairment are conducted as at each balance sheet date. If such evidence is identified, the recoverable value of the assets is determined. The recoverable amount is the higher of: the fair value less costs to sell and the value in use.

Impairment allowance is recognized in the profit or loss statement in "Other operating expenses" in the period to which it relates if the book value of an intangible asset exceeds its recoverable amount. Impairment allowance may be reversed but only up to the level of the book value which the asset would have (net of accumulated amortization), had the impairment allowance not been recorded.

Gains or losses on sales of intangible assets are presented in other operating income or expenses respectively.

The amortization period which are applied for the basis categories of intangible assets are as follows:

Brand "Polbank"	undefined useful life
The goodwill	undefined useful life
Customer's relationships	value conected with loans - 10 years
	value conected with customers - 5 years
Computer software	5 - 10 years

2.16.1. Costs of completed development projects

In the Bank's IT area of activity the costs related to:

- a given stage of research relating to a project or costs related to maintaining intangible assets are recognized in expenses as they are incurred.
- a stage of development works upon their completion, if they meet qualification criteria, are recognized as intangible assets and their amortization period is equal to the economic useful life of the undertaken development work.

In 2017 the Bank did not produce computer software for its own needs.

Notes to the financial statements (cont.)

2.16.2. Other intangible assets

Intangible assets include mainly:

- purchased computer software licenses which are capitalized at their purchase price, i.e. the costs incurred on the purchase and adapting the software to be used in accordance with Bank requirements
- purchased copyright laws to implemented software
- licenses or copyright laws to other work than software

Amortization of intangible assets is calculated using the straight-line method to allocate the cost over the estimated useful life (usually 5 to 10s years).

2.17. Property, plant and equipment

Property, plant and equipment after initial recognition are presented at historical cost (purchase price or cost of production) net of accumulated depreciation and accumulated impairment allowances (model of purchase price or cost of production).

Assets are depreciated during their estimated useful life. Accumulated impairment losses result from impairment test conducted (in case significant evidence of impairment is discovered during periodic reviews of property, plant and equipment).

Historical cost includes expenditure that is directly attributable to the acquisition and adapting for use, or production of the assets.

Leasehold improvements are costs incurred mainly to adapt the leased premises earmarked for servicing customers for Bank purposes.

Subsequent expenses are included in the carrying amount of the property, plant and equipment item or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the purchase price or cost of production of the item can be measured reliably.

All other repairs and maintenance expenses are charged to the profit or loss statement during the financial period in which they are incurred.

Property, plant and equipment are depreciated on a straight-line basis to allocate the cost net of the residual value, if material and exists, evenly over the estimated useful life.

Depreciation rates applied as a rule to the basic property, plant and equipment items are as follows:

Notes to the financial statements (cont.)

Leasehold improvements (in buildings or apartments)	12 years or in the term of the lease contract, depending which period is longer
Plant and machinery	3 – 10 years
Vehicles	10 years
Computers	3-8 years
Other tangible fixed assets	3 – 10 years

The adopted useful lives are reviewed at least once a year.

Reviews for potential impairment are conducted as at each once a year. If evidence of impairment is present, the recoverable value of the assets is determined. The recoverable amount is the higher of: the fair value less costs to sell and the value in use.

Impairment allowance is recognized in the profit or loss statement in position "Other operating expenses" in the period to which it relates if the book value of a component asset exceeds its recoverable amount. An impairment allowance may be reversed only to the level at which the book value of an asset does not exceed the book value – net of depreciation – which would be determined should the impairment allowance have not been recorded.

Gains or losses on sales of fixed assets are presented in other operating income or expenses respectively.

2.18. Leases

The Bank is a party to lease contracts on the basis of which it accepts third party fixed assets for use over an agreed period. The Bank classifies lease contracts on the basis of the scope in which the risks and rewards from holding the leased asset are attributable to the lessor and the lessee.

In respect of lease contracts on the basis of which substantially all the risks and rewards following from the possession of assets subject to the contract are transferred to the lessee, the lease is classified as a finance lease.

The leased asset is recognized in the Bank's assets as a fixed asset at the lower of: the fair value of the leased asset or the present value of the minimum lease payments determined as at the date of inception of the lease. At the same time, the Bank recognizes a liability in the same amount.

Lease payments are split between the reduction of the lease liability (in a manner enabling obtaining a fixed interest rate on the outstanding liability) and lease fees. Finance lease expenses are shown directly in the profit or loss statement. Fixed assets subject to finance lease contracts are depreciated in the same manner as fixed assets owned by the Bank. If there is no justified certainty that after the end of the finance lease contract ownership of the leased assets will be transferred, the assets are depreciated over the shorter of: the term of the lease and the estimated economic useful life of the asset.

Notes to the financial statements (cont.)

In respect of lease contracts on the basis of which substantially all the risks and rewards from the possession of assets subject to the contract are not transferred, the lease is classified as an operating lease.

Lease payments made under operating leases (including lease installments) are recognized in the profit or loss statement on a straight-line basis over the term of the lease.

2.19. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include short-term liquid assets (up to three months from the reporting date) which are not exposed to the risk of significant value changes, such as:

- cash and balances with the Central Bank,
- cash in nostro accounts and interbank deposits maturing within three months.

Cash equivalents are used to pay short-term cash liabilities and are not held for the purpose of investing or other types of activity.

2.20. Provisions

The Bank creates provisions for future liabilities when the amount or date of their arising is not certain, but it is possible to reliably estimate the amount of the liability. These future liabilities are certain or highly probable and they result from past events which the Bank has to meet in accordance with a contractual or constructive obligation and which lead to using assets already possessed, or future assets of the Bank. If the effect of the time value of money is material, the amount of the provision is determined by discounting the forecast future cash flows to their present value, using the discount rate which reflects the current cost of money for the Bank (it may specifically be the risk-free interest rate), taking into consideration the potential risk related to the given obligation.

Provisions are recognized especially against the following:

- future employee commitments from employment contracts and provisions related to long-term employee benefits measured using actuarial methods,
- the effects of pending litigation,
- restructuring costs.

Provisions for future liabilities are charged against the profit or loss statement, against other operating expenses or general administrative expenses. Unused provisions decrease the Bank’s operating expenses as of the date when the risk which justified their establishment was mitigated or ceased to exist.

Restructuring provisions are created when the following terms and conditions are met:

Notes to the financial statements (cont.)

- the Bank has a detailed and formal restructuring plan (which at least specifies the area or part of the area to which the plan relates, base locations covered by the plan, place of employment, functions and estimated number of employees to receive severance payments, the amount of expenditure to be incurred and the period when the plan will be implemented), and
- the Bank started implementing the plan or announced the key elements of the plan to the parties involved (thus arousing expectations of the parties to which the plan relates as to the planned restructuring actions).

The Bank determines the amount of the restructuring costs on the basis of best available assessments of the direct expenditure resulting from restructuring and not related to the Bank's current operations.

2.21. Equity

Equity constitutes capital and reserves created in accordance with the binding legal regulations, i.e. the respective acts and the Memorandum of Association of entities in the Bank.

Share capital comprises currently registered share capital. The amount of share capital presented in the financial statements reflects the share capital of the Bank and is shown in an amount consistent with the Memorandum of Association and entry to the Court Register.

Equity also includes: retained earnings comprising of current year's undistributed profit and retained past results, and the following items:

- supplementary capital from share premium and transfers from profit. At least 8% of the profit for a given financial year is transferred to supplementary capital, until it attains a level of at least one third of the share capital,
- general banking risk reserve,
- other reserves, created with transfers from profit and, in accordance with the Bank's Memorandum of Association, earmarked for offsetting balance sheet losses,
- the revaluation reserve from revaluation of financial instruments classified as available for sale,
- the effective portion of cash flow hedges.

2.22. Income tax expense

Corporate income tax covers current and deferred tax. The current income tax is recognized in the profit or loss statement.

Current tax is calculated based on the accounting profit before tax adjusted by revenues which in accordance with the tax regulations are not included in taxable income, taxable income which is not income for accounting purpose, costs not considered to be tax-deductible costs according to tax regulations and tax-deductible costs which are not considered to be costs for accounting purposes. Moreover, for tax purposes, the accounting profit before tax is adjusted by prior years' income and expenses realized for tax purposes in a given reporting period, and by income deductions.

In determining the deferred income tax the value of deferred income assets and provisions as at the balance sheet date of beginning and ending the reporting period is taken into account. The value of deferred income tax as at the balance sheet date is determined using the liability method, as a change in balance sheet items – deferred income tax assets and provisions.

Due to the fact that the moment of recognizing income as earned or cost as incurred differs under the accounting and tax regulations, the Bank records a deferred tax provision and asset. Deferred tax is recognized at the amount of the difference between the tax value of assets and liabilities and their carrying value for the purpose of financial reporting, using the appropriate tax rate.

Depending on the source of the temporary differences, deferred tax is recognized in the profit or loss statement or (in respect of the effects of measurement of financial assets recognized in other comprehensive income) in the statement of comprehensive income, under other comprehensive income. The Bank records a provision for deferred tax in respect of all positive temporary differences.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is measured using the tax rate, which according to expectations shall be applicable in the year in which the asset is realized or the provision released, determined on the basis of tax rates and tax regulations in force as at the end of the reporting period or such in respect of which it is certain at the balance sheet date that they will be binding in the future. Deferred tax assets and provisions are not discounted.

Deferred income tax assets and liabilities are offset when the Bank has a legally enforceable right to offset deferred and current tax receivables with respective liabilities and when the deferred income taxes relate to the tax payer and the same fiscal authority.

2.23. Other

The "Other assets" include mainly:

- prepaid costs relating to consecutive reporting periods;
- income receivable;
- repossessed assets,

Notes to the financial statements (cont.)

- unsettled clients' transactions.

Prepaid costs are recognized at the moment of their payment to the counterparty and gradually transferred to the profit or loss statement on a straight line basis over the period to which the costs relate.

Assets repossessed for debts are measured at fair value.

The „Other liabilities" comprise mainly:

- unsettled clients' transactions;
- accruals;
- deferred income.

Unsettled clients' transactions comprise amounts due to banks which are not settled as at the balance sheet date. These settlements are made through the national clearing house – Krajowa Izba Rozliczeniowa (KIR).

Accruals constitute costs to be paid mainly in respect of internal operations, not documented by a purchase invoice. These costs relate to the current reporting period and are recognized in the books upon delivery of goods or services, i.e. arising of the liability. They are payable later, after the invoices from the suppliers are received.

Deferred income item consists mainly of commissions accounted for linearly and other income received in advance, which will be recognized in the profit and loss statement in future reporting periods.

Notes to the financial statements (cont.)

2.24. New standards, interpretations and revisions to published standards

2.24.1. Standards and Interpretations which have been published and applied by the Bank as of 1 January 2017, to the extend relating to the Bank.

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Disclosure initiative (Changes to IAS 7 Statements of Cash flows)	January 2016	Financial year starting on or after 1 January 2017	Yes	Changes come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes resulting from cash flows and non-cash transactions. One of the ways to meet above requirements is to present opening and closing balances resulting from financing activities. The above changes did not have a significant impact on the financial statements of the Bank.
Recognition of deferred tax assets connected to unrealized losses (Changes to IAS 12 Income taxes)	January 2016	Financial year starting on or after 1 January 2017	Yes	Changes explain, among others, that unrealized changes connected with debt instruments recognized as fair value in financial statements, for which tax value is their initial cost, can result in recognition of negative temporary tax differences. The above changes did not have a significant impact on the financial statements of the Bank.

Notes to the financial statements (cont.)

2.24.2. Standards and Interpretations which have been published but are not yet binding and have not been adopted early by the Bank

The following standards and interpretations have been issued by either the International Accounting Standards Committee or by the International Financial Reporting Interpretations Committee, but are not yet in force:

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 9 Financial Instruments (2014)	July 2014	Financial year starting on or after 1 January 2018	Yes	The description of IFRS 9 impact on Bank's financial statements was presented below.
IFRS 14 Regulatory deferral accounts	January 2014	Financial year starting on or after 1 January 2016	No	This interim standard: - permits first time adopters of IFRS to continue to use its previous GAAP to account for regulatory deferral account balances both on initial adoption of IFRS and in subsequent financial statements - requires entities to present regulatory deferral account balances and movements therein as separate line items on the face of the financial statements - requires specific disclosures to identify clearly the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances in accordance with this interim Standard. Due to nature of Bank's activity IFRS 14 does not apply.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 15 *Revenue from Contracts with Customers and Amendments to IFRS 15: Effective date of IFRS 15*	May 2014/ September 2015	Financial year starting on or after 1 January 2018	Yes	The Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Specifically, it replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under the new standard, entities will apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized: - Over time, in a manner that depicts the entity's performance; or - At a point in time, when control of the goods or services is transferred to the customer. Included in the Standard are new qualitative and quantitative disclosure requirements to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Bank analyzed the impact of the new IFRS 15 Revenue from contracts with counterparties. The above changes will not impact on the financial statements of the Bank.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Clarifications to IFRS 15 (Revenue from Contracts with Customers)	April 2016	Financial year starting on or after 1 January 2018	Yes	The amendments to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard. The amendments clarify how to: Identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract. Determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided). Determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Bank analyzed the impact of the new IFRS 15 Revenue from contracts with counterparties. The above changes will not impact on the financial statements of the Bank.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates*)	September 2014	The effective date was deferred indefinitely	No	The Amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. While IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture, IFRS 10 requires full profit or loss recognition on the loss of control of subsidiary. The Amendments require a full gain or loss to be recognised when the assets transferred meet the definition of a business under IFRS 3 *Business Combinations* (whether it is housed in a subsidiary or not). A partial gain or loss (only to the extent of unrelated investors' interests) shall be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The Bank does not expect the Amendments to have a material impact on its financial statements once applied.
IFRS 16 Leases	January 2016	Financial year starting on or after 1 January 2019	No	IFRS16 replaces IAS17 Leases and connected with this standard interpretations. In relation to lessees new Standard eliminates existing currently division for finance and operating leases. Accounting for operating leases in the statements of financial position would result in recognition of new asset – right to use leased item – and new liability – liability to pay for the leasing. Rights to use assets under leasing would be amortized and from liabilities interest accruals would be calculated. It would result in recognition of higher expenses in the initial phase of the leasing, even when parties agreed on constant yearly payments. Lessors accounting for leasing in majority of cases would not change as division for operating and finance leasing would be valid. At the initial application impact of the Standard would depend on specific facts and circumstances relating to leasing agreements conducted by the Bank. At the date of these financial statements presentation Bank is not able to assess impact of the Standard on the financial statements.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Amendments to IFRS 2 Share –based payments Classification and valuation of share-based transactions.	June 2016	Financial year starting on or after 1 January 2018	No	The amendments provide requirements on the accounting for: a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, b) share-based payment transactions with a net settlement feature for withholding tax obligations; and c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The above described changes are not expected to have a significant impact on Bank's financial statements.
Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts.	September 2016	Financial year starting on or after 1 January 2018	Yes	The Amendments provide two options for the entities: - deferral approach - an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts, - an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from changes in valuation of designated financial assets applying IFRS 9 before new Insurance contracts standard is effective (the overlay approach) The above described changes are not expected to have a significant impact on Bank's financial statements.
Amendments to IFRS 28 Investments in associates and joint ventures as a part of Changes resulting from the review of IFRS 2014-2016.	December 2016	Financial year starting on or after 1 January 2018	No	Proposed change clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity (mutual funds or custody funds), is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition The above described changes are not expected to have a significant impact on Bank's financial statements.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Amendments to IFRS 1 The application of International Financial Reporting Standards for the first time as part of the Changes resulting from the review of IFRS 2014-2016.	December 2016	Financial year starting on or after 1 January 2018	No	Proposed change relates to deletion of the short-term exemptions in paragraphs E3-E7, because they relate to prior periods. The above described changes are not expected to have a significant impact on Bank's financial statements.
Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration	December 2016	Financial year starting on or after 1 January 2018	No	The Interpretation presents instructions how to determine the date of the transaction and thus which exchange rate should be used to translate, on initial recognition, the advance consideration is paid or received. The Interpretation relates both to transactions generating income and initial recognition of transactions made in foreign currencies. The above described changes are not expected to have a significant impact on Bank's financial statements.
Amendments to IAS 40 Transfers of Investment Property	December 2016	Financial year starting on or after 1 January 2018	No	According to the proposed Amendments, the entity transfers asset to or from investment property when, and only when there was a change in use of this asset. It was proposed to remove the exhaustive list of situations when transfer is required currently presented in the Standard and include the non-exhaustive list of examples of evidence of change in use. The above described changes are not expected to have a significant impact on Bank's financial statements.
IFRIC 23 Uncertainty over Income Tax Treatments	June 2017	Financial year starting on or after 1 January 2019	No	It clarifies how to apply the requirements in terms of recognition and measurement in IAS 12, Income Taxes, in case there is uncertainty how the income tax is recognized.The interpretation applies when the recognition of the transaction or circumstances in tax law is unclear or when the entity is not sure whether the tax authorities will accept the entity's approach or its interpretation of tax law.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				The above described changes are not expected to have a significant impact on Bank's financial statements.
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	October 2017	Financial year starting on or after 1 January 2019	No	Changes clarify that an entity applies IFRS 9 'Financial Instruments' to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The purpose of the change is to indicate how to measure long-term shares in affiliates or joint ventures. Paragraph 14A is added to clarify that an entity applies IFRS 9, including impairment requirements, to long-term shares in an associate or joint venture that are part of a net investment in an associate or joint venture, but to which the equity method is not used.Paragraph 41 is deleted because the IASB considered that it repeated the requirements contained in IFRS 9 and introduced confusion in accounting for long-term shares. The above described changes are not expected to have a significant impact on Bank's financial statements.
Amendments to IFRS 9: Prepayment Features with Negative Compensation	October 2017	Financial year starting on or after 1 January 2019	No	The change concerns the classification of financial assets - prepayment financial assets with negative compensation. The amendments also contain an explanation regarding the settlement of a change or swapping of a financial liability measured at amortized cost, which does not result in the removal of a financial liability from the statement. The Bank does not expect the Amendments to have a material impact on its financial statements once applied.
Annual Improvements to IFRS Standards 2015-2017	December 2017	Financial year starting on or after 1 January 2019	No	The Annual Improvements to IFRS 2015-2017 make amendments to Standards with appropriate changes to other Standards and Interpretations. Main changes are: - The amendments IFRS 3 (Business Combinations) clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business - The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				- IAS 12 Income Taxes — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises - IAS 23 Borrowing Costs — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. The Bank does not expect the Amendments to have a material impact on its financial statements once applied.
IFRS 17 Insurance Contracts	May 2017	Financial year starting on or after 1 January 2021	No	The entities are required to apply IFRS 17 "Insurance Contracts" in relation to: issued insurance and reinsurance contracts, their reinsurance contracts, and investment agreements, including discretionary profit shares, if the entity also issues insurance contracts. In accordance with IFRS 17, entities must separate portfolios of insurance contracts with similar risk factors and manage such groups of contracts separately. The new standard "Insurance Contracts" will replace the current IFRS4. The Bank does not expect the Amendments to have a material impact on its financial statements once applied.
Amendments to IAS 19 Plan Amendment, Curtailment or settlement	February 2018	Financial year starting on or after 1 January 2019	No	Specifies the method of determining pension costs/retirement cost by companies in case of changes to the defined retirement benefit scheme. IAS 19 "Employee benefits" determines the manner in which a company settles a defined benefit plan obligation. In the case of a change of plan - changes, limitations or settlements - IAS 19 requires the company to revaluate a liability or a net asset component for certain benefits. The changes require that the company use updated assumptions of this valuation in order to determine current service costs and net interest for the remainder of the reporting period after the plan change. So far, IAS 19 did not

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				specify how to determine these costs in the period after the plan change. By requiring the application of updated assumptions, changes are expected to provide useful information to users of financial statements. The Bank does not expect the Amendments to have a material impact on its financial statements once applied. The Bank does not expect the Amendments to have a material impact on its financial statements once applied.

In conclusion, the Management of the Bank does not expect that the introduction of these standards and interpretations to have any material impact on the Bank's use of accounting standards, with the exception of IFRS 9, which impact was presented below and IFRS 16, which impact on the applied accounting policies of the Bank has not yet been evaluated. The Bank intends to use the dates set out in the relevant standards and interpretations (without early application), provided that they will be approved by the EU.

Notes to the financial statements (cont.)

Impact of IFRS 9 on Bank's financial statements

The Bank implemented IFRS 9, published in July 2014, starting from 1 January 2018. Based on the assessment undertaken to date of publication of these financial statements, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Bank's equity at 1 January 2018 is presented in the table below:

Equity	31 December 2017	Classification and valuation of financial instruments	Impairment model for financial assets	Income tax	1 January 2018
Other reserves	1 074 443	334	2 450	-529	1 076 698
Retained earnings	871 246	-10 822	-520 479	102 432	442 376

The table below presents impact of adoption of IFRS 9 on impairment allowance and provisions for off balance sheet liabilities:

Impairment allowance and provisions for off balance, including:	Imapirment allowane and provison for off balance according to IAS 39	Reclassifications*	Impairment model for financial assets	Imapirment allowane and provison for off balance according to IFRS 9
	31 December 2017			1 January 2018
Amounts due from banks	76	0	0	76
Loans and advances to customers valued at amortized cost	1 872 074	-486 839	472 414	1 857 649
Securities valued at amortized cost	0	0	39	39
Securities valued at fair value through other comprehensive income	0	0	2 450	2 450
Provisions for off balance sheet liabilities	29 834	0	45 576	75 410

* Includes decrease of impairment allowance on assets in POCI category, which at the initial recognition are valued at fair value and no impairment allowance is recorded and decrease of impairment allowance due to lack of recognition in exposure of interests on impaired assets (recognized under IAS 39).

The European Parliament has issued as of 27s December 2017 a regulation (EU) 2017/2395 dated 12 December 2017 changing regulation (EU) 575/2013 on transition requirements for the impact of IFRS 9 implementation on own funds. The regulation allows a choice of two approaches to the recognition of the impact of adoption of the standard on regulatory capital:

- in a transition period of five years, including in the Tier 1 capital only part of the increased expected impairment losses phasing; or

- Recognizing the full impact on the day of adoption.

The Bank has decided to adopt the first approach to mitigate the impact of IFRS 9 implementation on Tier I capital. The estimated impact of IFRS 9 implementation on CET 1 in the first year of phasing in the full impact will be equal to ca. PLN 21 million (adjustment rate equal to 0,95 used).

Notes to the financial statements (cont.)

The assessment made by the entity is preliminary as not all transition work requirements have been finalised and therefore may be subject to adjustment:

- The new standard will require the entity to revise its accounting processes and internal controls, and these changes are not yet complete.
- The Bank has not finalized the testing and assessment of controls over its new IT systems. Consequently, the related impacts presented below may change when implementation is finalised.
- The systems and the associated controls that are in place to comply with the new requirements have not been operational for a full reporting period.
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalizes its first financial statements that include the date of initial application of IFRS 9.

Classification and measurement

The new standard replaced the IAS 39 Financial Instruments: recognition and measurement guidelines on classification and measurement of financial assets, including impairment guidelines. IFRS 9 also eliminated the categories of financial assets currently presented in IAS 39: held-to-maturity, available for sale and loans and advances.

According to the new standard's requirements, at the time of initial recognition, financial assets should be classified in one of the three categories:

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

A component of financial assets is classified to the category measured after initial recognition at amortized cost if the following two conditions are met:

- assets are held within a business model which aim is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

When the above conditions are not met, the financial asset is measured at fair value.

Profits and losses on the measurement of financial assets measured at fair value are recognized in a result of the current period, except for assets held as part of a business model designed to hold assets both for

Notes to the financial statements (cont.)

contractual cash flow and to be sold - for those assets valuation losses are recognized in other comprehensive income.

A business model's objective can be to hold financial assets to collect contractual cash flows even when some sales of financial assets have occurred or are expected to occur. IFRS 9 gives the following examples of sales that may be consistent with the hold-to-collect business model

- The sales are due to an increase in the credit risk of a financial asset;
- The sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent);
- The sales take place close to the maturity of the financial asset (less than 3 month before maturity date) and the proceeds from the sales approximate the collection of the remaining contractual cash flows;

For Bank, the sale of more than 10% of the portfolio (carrying value) during a rolling 3 year period will potentially be considered 'more than infrequent' unless these sales are immaterial as a whole.

In addition, if an investment in an equity instrument is not held for trading, IFRS 9 gives a choice to make an irrevocable decision on the measurement of such financial instrument at initial recognition at fair value through other comprehensive income. This election is made on an investment – by – investment basis for each investment and essentially covers strategic interests that are not fully consolidated. Amounts recognized in other comprehensive income in connection with the above valuation may not be reclassified in the subsequent periods to the result of current period.

The Bank made an assessment of the objective of the business model in which a financial asset is held, based on its purpose. The most important aspects considered as evidence when assessing which business model of the portfolio are:

- How the performance is evaluated and reported to the entity's key management personnel;
- How the risks that affect the portfolio are evaluated;
- How managers of the business are compensated – e.g. whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- The frequency, value and timing of sales in prior periods, the reasons for such sales, and its expectations about future sales activity.

For a specific portfolio held to collect the contractual cash flows or a portfolio designed to hold assets both for contractual cash flow and to be sold, the Bank must assess whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the financial statements (cont.)

The following contractual features are being considered :

- Prepayment, extension terms;
- Leverage features;
- Contractually linked instruments.

For this purpose, principal amount is defined as fair value of the financial asset at the initial recognition and interest is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

Time value of money is the element of interest that provides consideration for only the passage of time. It does not take into account other risks or costs associated with holding a financial asset. In some cases, the time value of money element may be modified (imperfect). That would be the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate. In this case units must assess the modification as to whether the contractual cash flows still represent solely payments of principal and interest.

The assessment relates mainly to analysis of:

- Reset rate frequency does not match interest tenor (f.e. interest rate is updated monthly based on yearly rate);
- Lagging indicator;
- Interest rate calculated as average from few days;
- Grace period in interest rates calculation.

This assessment will be carried out on an instrument by instrument basis on the date of initial recognition of the financial asset.

The new standard retains almost all of the requirements of IAS 39 in the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. IFRS 9 requires, however, that a change in the fair value relating to the credit risk of a financial liability designated at initial recognition to be measured at fair value through profit or loss is presented in other comprehensive income. Only the remaining part of the gain or loss from the measurement to fair value is to be recognized as a result of the current period. In case, however, the application of this requirement resulted in incompatibility of revenues and expenses, or if the financial liability resulted from loan commitments or financial guarantee contracts, the entire change in fair value should be recognized in the profit or loss of the current period.

As a result of analysis in relation to classification of financial assets, Bank assessed that:

Notes to the financial statements (cont.)

- loans and advances to customers and banks, currently presented in loans and advances category according to IAS 39, in majority will be valued at amortized cost and classified as assets held according to business model which aim is to collect contractual cash flows according to IFRS 9. Only insignificant part of loans and advances to customers and banks portfolio will be mandatorily valued at fair value through profit and loss due to failure of SPPI or benchmark test;

- debt securities currently classified as held to maturity, will be valued at amortized cost and classified as assets held according to business model which aim is to collect contractual cash flows according to IFRS 9;

- securities currently classified and available for sale, in majority will be valued at fair value through other comprehensive income and classified according to business model which aim is to collect both contractual cash flows or to sale according to IFRS 9;

- securities currently classified as trading assets will be valued at fair value through profit or loss according to IFRS 9;

- derivative financial instruments currently classified as trading assets will be valued at fair value through profit or loss according to IFRS 9;

- equity investments, currently classified as available for sale, will be valued at fair value through profit or loss or other comprehensive income (the Bank made decision in relation to irrevocable election to value equity investments at fair value through other comprehensive income). According to IAS 27 equity investments in subordinated companies will be further valued at cost.

According to the Bank's assessment introduction of the new standard does not impact classification of financial liabilities, because IFRS 9 does not assume significant changes in the classification of financial liabilities compared to IAS 39. Change in fair value of financial liabilities resulting from an increase of credit risk will be presented in other comprehensive income.

Financial liabilities are valued at amortized cost or at fair value through profit or loss. The Bank has not chosen the option of measuring financial liabilities at fair value. Should this option be chosen, changes in the fair value arising from changes in Bank's credit risk will be taken to other comprehensive income and once a financial liability is derecognized, the value previously recognized in other comprehensive income will not be recycled to profit or loss.

Notes to the financial statements (cont.)

Hedge accounting

IFRS 9 grants accounting options for hedge accounting. The Bank plans to continue to apply the provisions on hedge accounting pursuant to IAS 39 while, however, taking into account the changes in the disclosures in the notes pursuant to IFRS 7.

Impairment

The Bank calculates expected credit losses connected with:

- Debt instruments valued at amortized cost and in fair value through other comprehensive income;
- Exposures arising from loan commitments;
- Leasing receivables;
- Financial guarantee contracts.

The Bank recognizes expected credit losses at each reporting date.

The calculation of expected credit losses requires the use of accounting estimates which, by definition, will rarely equal the actual results.

This section provides an overview of the aspects of IFRS 9 that involve a higher degree of judgement or complexity and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

Measurement of expected credit losses

Credit risk comes from the risk of suffering financial loss, should any of our customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as, financial guarantees and letters of credit.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and

Notes to the financial statements (cont.)

significant assumptions about future economic conditions and credit behavior. Significant judgements are required in applying the accounting requirements for measuring expected credit losses, these are:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking;
- Establishing groups of similar financial assets, in respect of risk.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using probability of default (PD), exposure at default (EAD) and loss given default (LGD). This is the predominant approach used for the purposes of measuring expected credit losses under IFRS 9.

IFRS 9 prescribes a three-stage model for impairment based on changes in credit quality since initial recognition. This model requires that a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their expected credit losses measured based on expected credit losses on a lifetime basis. Purchased or originated credit-impaired financial assets have their expected credit loss is measured on a lifetime basis.

From 1 January 2018 for exposures classified to stage 1 and 2 interest income is calculated based on the gross carrying amount of the exposure. For exposures impaired after the initial recognition (stage 3) interest income is calculated based on the effective interest rate and the net carrying amount. The interest income from POCI assets is calculated on the net carrying amount based on the credit risk-adjusted effective interest rate. Moreover, for exposures classified to stage 1 and 2 expected losses are recognized over the remaining life time horizon.

Financial assets impaired at initial recognition (POCI), as at the initial recognition are valued at fair value. In the following periods expected losses are recognized over the remaining life time horizon.

Notes to the financial statements (cont.)

Significant increase in credit risk

The Bank uses the following criteria to identify significant increase in credit risk:

Quantitative criteria

The Bank uses quantitative criteria as the primary indicator of significant increase in credit risk for all material portfolios. For identification of significant increase in credit risk the lifetime PD curve at measurement data is compared with the forward lifetime PD curve at the date of initial recognition.

- Non - retail portfolio

For the estimation of the lifetime PD curve at the date of initial recognition assumptions are made about the structure of the PD curve. On the one hand in the case of highly rated financial instruments it is assumed that the PD curve will deteriorate over time. On the other hand for low rated financial instruments it is assumed that the PD curve will improve over time. The degree of improvement or deterioration will depend on the level of the initial rating. In order to make the two curves comparable the PDs are scaled down to annualized PDs. In general a significant increase in credit risk is considered to have occurred with a relative increase in the PD of up to 250%. This amount can be lower due to several limiting factors such as closeness to maturity and portfolios of products.

- Retail portfolio

For the estimation of the significant increase of credit risk cumulated PDs are compared in the lifetime of the exposure. For the comparison cumulated PDs at the reporting date and relating conditional cumulated PDs calculated based on the credit risk assessment at the initial recognition are used. Conditional cumulated PDs are calculated assuming the financial instrument is presented at the reporting date, i.e. there was not earlier full repayment of the financial instrument and there was no event of not fulfilling the obligation. Significant increase in the credit risk is identified, when difference between cumulated PDs is above margin value calculated based on historical data on events of significant increase of credit risk.

Due to the fact, that there is no generally accepted market practice for the level at which a financial instrument has to be transferred to Stage 2, it is expected that the increase in PD at reporting date which is considered significant will develop over a period of time as a result of an iterative process between market participants and supervisors.

Notes to the financial statements (cont.)

Qualitative criteria

The Bank uses also qualitative criteria as an indicator of significant increase in credit risk and classification in the Stage 2 for all material portfolios.

- Non-retail portfolio

For sovereign, bank, corporate and project lending portfolios the following criteria are being used:

- External market indicators;
- Changes in contract terms;
- Changes to management approach;
- Forbearance status;
- Expert judgement.

The assessment of significant increase in credit risk incorporates forward-looking information and is performed on a quarterly basis at a deal level for all non-retail portfolios.

- Retail portfolio

For retail portfolios significant increase in credit risk is identified , if the borrower meets one or more of the following criteria:

- Forbearance status;
- No information on current or initial rating;
- Client's increased risk status in the early warning system;
- Client has other contract with default status;
- Expert judgement.

The assessment of significant increase in credit risk of retail portfolio incorporates forward-looking information and is performed on a monthly basis.

Exposures more than 30 days past due

The financial instrument is considered to have experienced a significant increase in credit risk since initial recognition if the borrower is more than 30 days past due on its contractual payments. These instruments are being classified to Stage 2 and credit losses are calculated on a lifetime basis.

In some limited cases for non-retail portfolio the presumption that financial assets which are more than 30 days past due are to be shown in Stage 2 is rebutted.

Notes to the financial statements (cont.)

Low credit risk

The Bank has not used the low credit risk exemption for any lending business, however it selectively uses the low credit risk exemption for debt securities.

Definition of default and credit impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired. The criteria used have been applied to all financial instruments and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) in expected loss calculations.

- Non-retail portfolio

Default of non-retail client is recognized when one or more below criteria are met:

- The borrower is more than 90 days past due on its material contractual payments;
- The borrower is bankrupt or insolvent;
- The loan was written down;
- Termination of the loan agreement/other instrument exposed to the risk;
- Forced restructuration;
- Payment of interests was cancelled;
- Sale of the receivable resulting in significant loss;
- License withdrawn (for financial institutions);
- Payment moratorium;
- Expected economic loss;
- Client's default identified by other entities from the Group;

- Retail portfolio

Default of retail client is recognized when one or more below criteria are met:

- Overdue above 90 days;
- Frauds connected with loans;
- Debtor's death;
- Agreement termination by the Bank;

Notes to the financial statements (cont.)

- Client questions the obligation in the court proceeding;
- Bank starts execution, bankruptcy or liquidation process against the Client;
- Sale of loans;
- Information about Client's financial difficulties;
- Liquidation or bankruptcy of the company, its subsidiary or parent;
- Restructuring with the loss.

Exposure, which was not in the restructuring process, is in default for the consecutive period of a minimum of 3 months since the default indicator ceased to exist, assuming timely repayment of obligations. For contracts, which conditions were modified, since the restructuring 12 months should pass.

Default status is identified based on single contract and then is extended to other contracts in the same product type for retail clients and all contracts of the micro clients.

Explanation of inputs, assumptions and estimations techniques

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. These assumptions vary by product type. Expected credit losses are the discounted product of the probability of default (PD), loss given default (LGD), exposure at default (EAD) and discount factor (D).

Probability of default (PD)

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. In general the lifetime probability of default is calculated using the regulatory 12 month probability of default, stripped of any margin of conservatism, as a starting point. Thereafter various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the loan or portfolio of loans. Different models have been used to estimate the default profile of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, local and regional governments, insurance companies and collective investment undertakings - the default profile is generated using a transition matrix approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model;
- Corporate customers, project finance and financial institutions - the default profile is generated using a parametric survival regression (Weibull) approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model;

Notes to the financial statements (cont.)

- Retail mortgages and other retail lending - the default profile is generated using historical data, parametric survival regression in competing risk frameworks. PD curve is calculated based on parameters of Burr distribution.

In the limited circumstances where some inputs are not fully available grouping, averaging and benchmarking of inputs is used for the calculation.

Loss given default (LGD)

Loss given default represents expectation of the extent of loss on a defaulted exposure. Loss given default varies by type of counterparty and product. Loss given default is expressed as a percentage loss per unit of exposure at the time of default.

Different models have been used to estimate the loss given default of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign - the loss given default is found by using market implied sources;
- Corporate customers, project finance, financial institutions, local and regional governments, insurance companies - the loss given default is generated by discounting cash flows collected during the workout process. Forward looking information is incorporated into the loss given default using the Vasicek model;
- Retail mortgages and other retail lending - the loss given default for retail mortgages and segment micro is generated based on statistical model built on historical realized inflows including expected results of currently used collection process. For loans other than mortgages, the realized recoveries matrix was used.

In the limited circumstances where some inputs are not fully available alternative recovery models, benchmarking of inputs and expert judgement is used for the calculation.

Exposure at default (EAD)

Exposure at default is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. Where relevant early repayment/refinance assumptions are also considered in the calculation.

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default. The prudential regulatory margins are removed from the credit conversion factor. In the limited circumstances where some inputs are not fully available benchmarking of inputs is used for the calculation.

Notes to the financial statements (cont.)

Discount factor

In general the discount rate used in the expected credit loss calculation for on balance exposures other than leasing and POCI is the effective interest rate or an approximation thereof.

Calculation

The expected credit loss is the product of PD, LGD and EAD times the probability not to default in the considered time period. The latter is expressed by the survivorship function S. This effectively calculates future values of expected credit losses, which are then discounted back to the reporting date and summed. The calculated values of expected credit losses are then weighted by scenario.

The Stage 3 impairment allowance for non-retail exposures are calculated based on expected cash flows discounted by the appropriate effective interest rate.

For retail exposures impairment allowance is calculated using best estimate of expected loss (BEEL).

Forward looking information

The assessment of significant increase in credit risk and the calculation of expected credit losses both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the probability of default, loss given default and exposure at default vary by category type. Expert judgment has also been applied in this process. Forecasts of these economic variables are provided by Raiffeisen Research on a quarterly basis and provide the best estimate view of the economy over the next three years. After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate or a long run average growth rate until maturity.

The impact of these economic variables on the probability of default, loss given default and exposure at default has been determined by performing statistical regression to understand the impact changes in these variables have had historically on default rates and on the components of loss given default and exposure at default.

In addition to the base economic scenario, Raiffeisen Research also provide a best case and worst case scenario along with scenario weightings to ensure non-linearities are captured. The Bank has concluded that three scenarios or less appropriately capture non-linearity. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The probability-weighted expected credit losses are determined by running each scenario through the relevant expected credit loss model and multiplying it by the appropriate scenario weighting.

Notes to the financial statements (cont.)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

Grouping of assets

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, The Bank has considered benchmarking internal/external supplementary data to use for modelling purposes.

The characteristics and any supplementary data used to determine groupings are outlined below:

- Client segment;
- Product type – for retail portfolio;
- PD rating class;
- LGD, BEEL, MID pool – for retail portfolio.

Transition

Bank decided to use the IFRS 9 provisions which provide an exemption of the obligation to restate comparative information for prior periods in relation to the changes arising from classification, measurement and impairment. Differences in the carrying amount of financial assets and liabilities resulting from the application of IFRS 9 are reported in retained earnings in equity as at 1 January 2018.

The following assessments have been made by the Bank on the basis of the facts and circumstances that exist at the date of initial application:

- the determination of the business model in which a financial asset is held;

- the designation and revocation of previous designations of certain financial assets and financial liabilities measured at FVTPL;

- the designation of certain strategic investments not held for trading as at FVOCI.

3. Significant estimates

The preparation of financial statements in accordance with the IFRS EU requires the Management Board of the Bank to make judgments, estimates and assumptions which affect the adopted accounting policies and the amounts presented in the financial statements and in the additional notes and explanations, in particular the amounts which cannot be clearly established based on other sources. The estimates and

Notes to the financial statements (cont.)

assumptions are made as at the balance sheet date based on the historical data available, information on the situation at the moment of making the estimates and other factors considered appropriate in a given circumstances, including the expectations as to future events, which seem justified in a given situation. In spite of the fact that the estimates are based on the best knowledge concerning the circumstances and actions undertaken by the Bank, the actual results may differ from the estimates. The estimates and assumptions are subject to a regular review. Adjustments in estimates are recognized in the period in which the change of estimate was made, provided that the adjustment only relates to that period, or in the period in which the change was made and in future periods if the adjustment affects both the current and the future periods.

The main judgements, estimates and assumptions adopted by the Bank are described below and were consistent with these adopted in the prior reporting period.

3.1. Impairment of financial assets

The process of monitoring the risk of impairment of financial assets (mainly amounts due from loans and advances and off-balance sheet exposures) is aimed at identifying the impairment events which may occur in relation to the Bank's clients and to prevent from the deterioration of the quality of these assets, and also attempting to identify the impairment triggers and to properly reflect them in the Bank's books (see the impairment triggers of a financial assets or a group of financial assets listed in note 2.8. to the financial statements).

Monitoring the risk of impairment of financial assets includes: analyzing the economic and financial situation of the issuer or debtor, verification whether the loan covenants are not breached by the issuer or debtor (including the monitoring of loan repayment delays), analyzing the probability of bankruptcy or restructuring of the issuer or debtor and identifying fraud of assets by the debtor.

The impairment allowances in respect of loans, advances and other receivables takes into account the estimates related to the value of collateral.

The Bank performs these estimates as at the balance sheet date. The estimates include cash flows which may arise in connection with claiming collaterals, less costs related to claiming and selling such collaterals. As at the balance sheet date the Management of the Bank performed a review of the models in order to assure that they properly reflect the current market situation, including the current conditions of the market's liquidity and credit spreads.

Notes to the financial statements (cont.)

3.2. Impairment of the loan portfolio

The monitoring of customers in the corporate portfolio is performed based on periodic individual analysis of exposures of this portfolio. An individual counterparty/borrower is treated as one exposure. Impairment allowances are estimated on an individual basis. In calculating impairment allowances, the Bank uses the assessments as to which indicators of impairment have been identified, and estimates future cash flows discounted using the effective interest rate, taking into account of the estimated value of collateral. When estimating the impairment allowances, the Bank uses internal and external sources of information. The Bank applies the following, depending on the customer segment (corporate customers, SME, project financing, financial institutions, local and regional authorities, public sector entities, governments and central banks): the internal rating system of the Bank or values estimated based on the Bank's employees professional judgment.

The information on the sensitivity analysis in respect of impairment allowances for amounts due from customers with recognized impairment losses is presented in the table below. The estimate has been performed for the corporation portfolio of loans and advances for which impairment allowances were recognized based on an individual analysis of future cash flows related to repayment and recovery from collateral. As at 31 December 2017 the base value of the allowances calculated under the individual assessment model for balance and off balance sheet exposures is PLN 563 803 thousand (PLN 552 269 thousand as at 31 December 2016), and the base value of discounted recoveries from collaterals and cash repayments is PLN 1 448 142 thousand (PLN 1 186 875 thousand as at 31 December 2016).

Estimated movement in the allowance for the portfolio of loans and advances analysed case by case based on future cash flows expected from repayment and recovery from collateral	No change in repayment	Repayment by customers up by 10%	Repayment by customers down by 10%
As at 31 December 2017			
No change in inflows from collateral	563 803	546 921	586 664
Inflows from collateral up by 10%	541 575	524 801	
Inflows from collateral down by 10%	590 241		613 110
As at 31 December 2016			
No change in inflows from collateral	552 269	545 734	565 506
Inflows from collateral up by 10%	522 488	517 093	
Inflows from collateral down by 10%	601 263		617 239

Estimation of impairment for retail clients not significant individually is performed by group method. Collectively assessed exposures are classified as impaired assets when the Bank identifies impairment triggers set for specified group of assets presented in note 2.8.1.2. The impairment allowance is estimated by classifying the individual exposures into homogeneous groups based on the type of customer and type of product (credit card, overdraft, consumer loan, car loan, mortgage loan, micro loan) and the risk scale. The impairment allowance is calculated based on the allocation to the particular groups using the

Notes to the financial statements (cont.)

arithmetical model. The exposures significant individually are subject to individual analysis in regard to identification of triggers and determination of impairment allowance.

If no impairment triggers have been identified on loan exposures, the exposures form the basis for calculating an allowance for losses incurred but not reported (IBNR) based on statistical models.

The methodology, statistical models and their assumptions are based on historical observations and professional judgments of the experts and are applied for the exposures with similar credit risk. The models and their assumptions are subject to periodic validation to minimize the differences between the estimated and actual loan losses.

3.3. Financial instruments valuation methods

The valuation of financial instruments at fair value for which there is an active market is performed based on the market value. When the value of the instrument is not directly available, a theoretical valuation based on the existing, approved by the Bank model can be made. In respect of instruments where the risk factor is the interest rate, the valuation takes into account the yield curve composed of interbank deposits market quotations, FRA rates, IRS quotes and swap points, as applicable to the instrument.

For instruments where the risk factor is the foreign exchange rate, the spot interbank rate is taken into account, while the options are measured on the basis of volatility.. All quotes included in the valuation models are retrieved from a centralized repository of market data loaded by the most liquid available quotes for various instruments.

Additionally, the valuation of derivatives includes counterparty risk factor, which estimation is based on market parameters of this risk, including PD, LGD and exposure's tenor.

The valuation models are assessed and verified periodically by qualified independent employees, i.e. those who do not participate in front office activities. The Model Validation Committee also participates in the validation process.

3.4. Provisions calculation

Provisions for liabilities to employees related to employment comprise of provisions for actuarial benefits. The calculation of this provision was performed by an external independent actuary, who used the individual method, separately for each employee. The provisions were calculated as a sum of discounted future payments, for each of the currently employed and based on their remuneration, as at the day of calculation taking into consideration additional assumptions regarding staff turnover. A significant factor affecting the amount of the provision is the adopted discount rate which is based on the return on risk-free securities (Treasury bonds) denominated in the currency in which the employee benefits are paid out and the redemption date of which is similar to the estimated date of realization the liabilities in respect of employee benefits – mobility, salary increase rates, mortality.

The Bank also books other provisions, including, mainly provisions for the litigation and claims, provisions for restructuring costs. The amount of the provision is estimated taking into account the potential risk related to a given liability based on the forecasted future cash flows. If the effect of the change in the time value of money is significant, these cash flows are discounted to present value using the discount rate reflecting the cost of money for the Bank. Provisions for restructuring costs are determined based on the best available estimates of direct costs resulting from the restructuring.

3.5. Intangible assets with an indefinite useful life recognized as a result of an acquisition of Polbank EFG S.A. – impairment test

Impairment test - brand "Polbank"

Due to decision to perform digital evolution and optimization of the Bank in the years 2017 – 2019, as at 31 March 2017 the Group performed impairment test of the intangible asset recognized as a result of an acquisition, i.e. the brand "Polbank". For the purpose of the impairment test the cash generating unit has been determined at the level of the retail segment of the Bank.

For the calculation of the discount rate the Capital Asset Pricing Model was used with risk-free interest rate, beta-coefficient for the banking sector and premium for the capital risk. The total discount rate was estimated at 10.65% nominal rate (as at 31 December 2016 amounted to 10.04%).

The nominal long-term cash flow growth rate after the forecast period was estimated at 5.0% (4.6% as at 31 December 2016), based on the long-term forecasts of nominal GDP growth.

The assessment of the impairment of „Polbank" brand as at 31 March 2017 resulted in write off of "Polbank" brand in the amount of PLN 114 000 thousand.

Impairment test – customer relationships

Starting from 2014 the Bank split the customer relationships into two separate intangible assets: customer relationships from granted loans (amortized using diminishing method over 10 years) and customer relationships from received deposits (amortized using diminishing method over 5 years). The value in use was estimated separately for both assets: client relationships from granted loans and received deposits. The estimation was based on forecast of net interest income or savings which will be generated by the Clients of Polbank EFG S.A. at acquisition date.

The discounted stream of income or net interest savings generated by the customer base of the took over bank resulting from the difference in interest rates of the analyzed products in relation to alternative

Notes to the financial statements (cont.)

products, represents the value in use of customer relationships connected with loans granted and deposits received.

The discount rate was determined on the level of interest rate of comparable products used in the analysis.

The estimated discounted revenues and savings were compared to the book value of the asset. As a result of the test, there no impairment of customer relationships was recognized.

3.6. Useful life and impairment of property, plant and equipment and other intangible assets

For the purpose of calculating the depreciation/amortization cost of property, plant and equipment and intangible assets their anticipated useful lives are estimated, which affect directly the relevant amortization rates. The adopted useful lives are verified at least once a year. The estimates of the useful lives of the individual property, plant and equipment and intangible asset categories and their verification are based on, among other things, the periods arising from contractual titles related to the period of use of an asset, anticipated wear and tear and utilization of an asset, obsolescence or limitations of use of an asset for technological, market, legal or other reasons.

Property, plant and equipment and intangible assets are subject to regular reviews in order to determine whether there were any indications of impairment of these assets. If the impairment triggers are identified, the Bank estimates the amount of the impairment loss as the difference between the carrying amount and the lower recoverable amount. The recoverable amount is the higher of: fair value less costs to sell and value in use. Fair value less costs to sell is estimated on the basis of available market data or valuations performed by independent experts (which are also in principle based on estimates); whereas the value in use is estimated by adopting specific assumptions, among other things, as to amounts and dates of future cash flows, which the Bank can obtain from a property, plant and equipment item or an intangible asset, as well as the risk of a given asset having no liquidity. Adopting different assumptions for valuation purposes might affect the carrying amount of certain property, plant and equipment items and intangible assets.

Notes to the statement of profit or loss

4. Net interest income

Interest income	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**
Loans and advances to banks	21 530	19 547
Loans and advances to customers	1 122 124	1 102 690
Financial assets held for traiding	73 554	139 976
Derivative hedging instruments	158 672	189 000
Reverse repo	4 821	9 567
Investment securities	182 072	128 568
Total	**1 562 773**	**1 589 348**

Interest expense		
Banking deposits	-9 740	-13 194
Customer deposits	-342 479	-433 486
Derivative hedging instruments	-4 835	-5 207
Repo instruments	-3 651	-6 585
Loans and advances received (including subordinated loans)	-84 169	-97 313
From issuance of own bonds	-13 720	-15 395
Total	**-458 594**	**-571 180**

Net interest income (including):	**1 104 179**	**1 018 168**
Total interest income from financial assets other than designated at fair value through profit or loss	1 330 547	1 260 372
Total interest expense related to financial assets other than designated at fair value through profit or loss	-453 759	-565 973

Interest income from financial assets with impairment in 2017 equalled to PLN 33 599 thousand (in 2016 PLN 43 205 thousand, presented in "Income from loans and advances to customers").

Notes to the statement of profit or loss (cont.)

5. Net provisioning for impairment losses on financial assets and provisions for off-balance sheet item

For the year ended 31 December 2017	At the beginning of the year	Increases		Decreases					At the end of the year	Proceeds from sale of Bank's receivables and other	Impact on the result for the year
		Impairment allowance recorded	Foreign exchange differences	Impairment allowance reversal	Write-off of assets	Sale of receivables	Reclassification	Foreign exchange differences			
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with individual method											
Amounts due from banks	60	5	0	-60	0	0	0	-5	0	0	55
Amounts due from individuals	13 252	25 383	0	-24 318	0	0	-534	-7 416	6 367	0	-1 065
Amounts due from micro customers	16 756	4 579	0	-4 907	0	0	128	-1 838	14 718	0	328
Amounts due from large enterprises	548 399	238 826	0	-77 665	-1 231	-122 280	-179	-38 126	547 745	55 148	-106 013
Amounts due from SME	42 664	13 944	0	-3 722	-4 469	0	585	-110	48 892	0	-10 222
Off-balance sheet items	25 554	21 316	0	-22 875	0	0	0	-1 270	22 725	0	1 559
Investment securities	27 159	0	0	-27 159	0	0	0	0	0	0	27 159
Shares in subsidiaries	17 951	0	0	0	0	0	0	0	17 951	0	0
Total	**691 796**	**304 053**	**0**	**-160 706**	**-5 700**	**-122 280**	**0**	**-48 765**	**658 398**	**55 148**	**-88 199**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with group method (including IBNR)											
Amounts due from banks	40	75	0	-32	0	0	0	-7	76	0	-43
Amounts due from individuals	677 888	329 890	0	-202 773	-5 609	-24 467	-991	-26 260	747 678	9 162	-117 955
Amounts due from micro customers	352 139	148 189	4 362	-56 187	-4 641	-5 978	1 331	0	439 215	2 685	-89 317
Amounts due from large enterprises	61 751	35 371	0	-30 901	0	0	-333	-2 843	63 045	0	-4 470
Amounts due from SME	4 000	2 158	0	-2 434	0	0	-7	-48	3 669	0	276
Amounts due from the public sector	449	395	0	-100	0	0	0	0	744	0	-295
Off-balance sheet items	5 444	4 351	0	-2 548	0	0	0	-138	7 109	0	-1 803
Total	**1 101 711**	**520 429**	**4 362**	**-294 975**	**-10 250**	**-30 445**	**0**	**-29 296**	**1 261 537**	**11 847**	**-213 607**
Total allowances and provisions	**1 793 508**	**824 482**	**4 362**	**-455 681**	**-15 949**	**-152 725**	**0**	**-78 061**	**1 919 935**	**66 995**	**-301 806**

Notes to the statement of profit or loss (cont.)

For the year ended 31 December 2016	At the beginning of the year	Increases		Decreases					At the end of the year	Proceeds from sale of Bank's receivables and other	Impact on the result for the year
		Impairment allowance recorded	Foreign exchange differences	Impairment allowance reversal	Write-off of assets	Sale of receivables	Reclassification	Foreign exchange differences			
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with individual method											
Amounts due from banks	0	0	0	0	0	0	60	0	60	0	0
Amounts due from individuals	17 862	13 558	0	-14 780	-419	0	-2 634	-335	13 252	0	1 222
Amounts due from micro customers	23 761	17 995	0	-24 246	0	0	-547	-207	16 756	0	6 251
Amounts due from large enterprises	705 251	285 550	0	-227 276	-121 304	-91 866	1 658	-3 613	548 399	5 897	-52 377
Amounts due from SME	43 394	11 052	0	-5 227	-4 441	-3 566	1 463	-11	42 664	247	-5 578
Off-balance sheet items	41 228	26 084	647	-42 406	0	0	0	0	25 554	0	16 322
Investment securities	0	27 159	0	0	0	0	0	0	27 159	0	-27 159
Shares in subsidiaries	17 951	0	0	0	0	0	0	0	17 951	0	0
Total	**849 448**	**381 398**	**647**	**-313 935**	**-126 164**	**-95 432**	**0**	**-4 166**	**691 796**	**6 144**	**-61 319**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with group method (including IBNR)											
Amounts due from banks	165	31	0	-155	0	0	0	-1	40	0	124
Amounts due from individuals	596 350	287 521	8 662	-201 312	0	-11 085	-2 248	0	677 888	5 701	-80 508
Amounts due from micro customers	297 803	109 443	1 802	-57 316	0	-2 002	2 409	0	352 139	909	-51 218
Amounts due from large enterprises	75 340	26 986	0	-40 306	0	0	-33	-236	61 751	0	13 320
Amounts due from SME	4 724	2 369	0	-2 962	0	0	-128	-3	4 000	0	593
Amounts due from the public sector	96	388	0	-35	0	0	0	0	449	0	-353
Off-balance sheet items	8 556	2 901	72	-6 085	0	0	0	0	5 444	0	3 184
Total	**983 034**	**429 639**	**10 537**	**-308 171**	**0**	**-13 087**	**0**	**-240**	**1 101 711**	**6 610**	**-114 857**
Total allowances and provisions	**1 832 482**	**811 037**	**11 184**	**-622 106**	**-126 164**	**-108 519**	**0**	**-4 405**	**1 793 508**	**12 754**	**-176 177**

Notes to the statement of profit or loss (cont.)

6. Net fee and commission income

Fee and commission income	For the year ended 31 December 2017	For the year ended 31 December 2016
From transaction margin on client's foreign exchange dealings and derivatives	264 995	276 353
From investment and insurance products	83 075	98 165
From debit and credit cards	82 689	79 924
From handling of cash and bank transfers	58 723	58 025
From loans and advances, not being part of the effective interest rate	48 152	54 093
From maintaining of bank accounts	39 449	39 132
From custody and brokerage activities	42 228	31 883
From handling of letters of credit and guarantees	31 250	28 222
Other	3 029	3 243
Total	**653 590**	**669 040**

Fee and commission expense		
From payment cards and atm transactions	-22 036	-29 158
From handling of cash and bank transfers	-14 055	-16 610
From transaction margin on client's foreign exchange dealings and derivatives	-9 489	-10 495
From investment and insurance products	-7 526	-7 854
From loans and advances, not being part of the effective interest rate	-6 540	-7 729
From custody and brokerage activities	-5 372	-4 604
From maintaining of bank accounts	-2 340	-3 627
Other	-1 061	-1 011
Total	**-68 419**	**-81 088**

Net fee and commission income (including):	585 171	587 952
Total commission income related to financial assets other than designated at fair value through profit or loss	346 367	360 804
Total commission expense related to financial assets other than designated at fair value through profit or loss	-53 558	-76 484

Notes to the statement of profit or loss (cont.)

7. Net income from instruments measured at fair value and from foreign exchange result

Net income from financial instruments measured at fair value through profit or loss	For the year ended 31 December 2017	For the year ended 31 December 2016
Net income realized and unrealized (without the currency component) on currency derivatives	1 468	-46 118
Net income realized and unrealized (without the currency component) on interest rate based derivatives	14 968	23 782
Net income realized and unrealized on debt instruments	25 930	-2 337
Net income realized and unrealized on equity instruments	1 408	80 615
Total net income from financial instruments measured at fair value through profit or loss	**43 774**	**55 942**

Net income from financial instruments in hedge accounting		
Fair value hedge	**607**	**920**
Changes in fair value of the hedged instrument	-5 468	-1 636
Changes in fair value of the hedging instrument	6 075	2 556
Cash flow hedge	**3 687**	**5 013**
Ineffective part of changes in fair value of hedging insturments included in profit or loss	3 687	5 013
Total net income from financial instruments in hedge accounting	**4 294**	**5 933**

Net foreign exchange result		
Realized and unrealized foreign exchange differences arising from the currency component of the valuation of derivatives	1 055 500	-165 029
Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities	-1 048 872	212 696
Total net foreign exchange result	**6 628**	**47 667**

Total net income from financial instruments measured at fair value and net foreign exchange result	54 696	109 542

"Net income realized and unrealized (without the currency component) on currency derivatives" contains gains and losses on swaps, forwards and options, except for the separated currency component which constitutes foreign exchange differences. "Net income realized and unrealized (without the currency component) on interest rate based derivatives" contains gains and losses on IRS – interest rate swaps, CIRS, FRA and OIS contracts, except for the separated currency component which constitutes foreign exchange differences. More details on derivatives are provided in note 14 to the financial statements.

Gains and losses on sale and valuation of financial assets measured at fair value through financial result other than derivatives are presented in "Net income realized and unrealized on debt instruments".

For the year 2016 in "Net income realized and unrealized on equity instruments" was presented result on the settlement of the acquisition of Visa Europe Limited by Visa Inc.

Notes to the statement of profit or loss (cont.)

Additional information on hedged and hedging financial instruments is presented in note 15 to the financial statements.

"Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities" contain profit and loss from revaluation of assets and liabilities denominated in foreign currency.

Customer margin from FX transactions including mainly margin on spot and forward currency buy or sell transactions is separated from net income from financial instruments measured at fair value and net foreign exchange result and presented in net fee and commission income.

8. General administrative expenses

8.1. Salaries, wages and other employee benefits

Salaries, wages and other employee benefits	For the year ended 31 December 2017	For the year ended 31 December 2016
Salaries and wages	-436 510	-458 763
Social insurance costs, including:	-66 390	-67 215
Other employee benefits	-11 326	-13 113
Total	**-514 226**	**-539 091**

8.2. Other administrative expenses

Other administrative expenses	For the year ended 31 December 2017	For the year ended 31 December 2016
Maintenance and rental of buildings	-104 668	-132 665
including lease installments	-78 865	-100 660
IT and telecommunication costs	-93 281	-95 560
Contribution and payments to Bank Guarantee Fund	-71 907	-96 769
Consulting services	-50 343	-22 596
Marketing costs	-21 888	-23 621
Training costs	-8 878	-11 395
Costs of other lease installments	-3 996	-4 225
Other sundry costs	-87 342	-90 273
Depreciation cost including:	-72 019	-98 591
depreciation cost on tangible fixed assets	-31 663	-37 746
depreciation cost on intangible fixed assets	-40 356	-60 845
Total	**-514 322**	**-575 695**

Notes to the statement of profit or loss (cont.)

9. Other operating income and expense

Other operating income	For the year ended 31 December 2017	For the year ended 31 December 2016
Revenue from non-banking activities	2 539	2 505
Release of other provisions and impairment of other assets	9 465	4 092
Reversal of expense accrual	19 737	0
Income on disposal of property, plant and equipment	1 696	1 991
Reversal of impairment allowance on other assets	665	16
Other operating income	3 741	3 434
Total	**37 843**	**12 038**

Other operating expense	For the year ended 31 December 2017	For the year ended 31 December 2016
Expenses on allocation to other provisions and impairment of other assets	-4 032	-26 786
Impairment of fixed assets	-13 940	-125 811
Costs of sale and disposal of property,plant and equipment and intangible assets	-116 429	-12 758
Debt collection costs	-19 164	-12 866
Other operating expenses	-4 896	-25 204
Total	**-158 461**	**-203 425**

The expenses relating to “Polbank” brand write off of PLN 114 000 thousand were presented in the year 2017 in line Costs of sale and disposal of property, plant and equipment and intangible assets

In the year 2016 the Bank recognized impairment of “Polbank” brand resulted of PLN 86 000 thousand and of goodwill of PLN 32 966 thousand in line Impairment of fixed assets.

In the year 2016 in Other operating expenses there was presented result on the settlement of the legal dispute relating to Raiffeisen Bank Polska S.A. (of PLN 18 680 thousand) and Raiffeisen-Leasing Polska S.A. (of PLN 12 900 thousand) income tax liabilities connected with investment in Singapore bonds.

Notes to the statement of profit or loss (cont.)

10. Income tax expense

For the year ended 31 December 2017	At the beginning of the year	CHANGES		At the end of the year
		Profit or loss statement	Other comprehensive income	
Deferred income tax asset				
Interest accrued, payable (cost), including:	21 234	-503	0	20 731
Interest on deposits	10 772	-1 947	0	8 825
Interest on securities and derivatives	6 549	5 357	0	11 906
Discount on securities	3 913	-3 913	0	0
Fair value of derivatives (without the currency component) and securities	39 975	-6 465	-4 967	28 543
Commission settled using effective interest rate	46 604	8 162	0	54 766
Impairment allowance not recognized as tax-deductible costs	137 336	13 973	0	151 309
Other (including impairment on other assets)	673	446	0	1 119
Deferred costs	31 700	3 857	0	35 557
Other	15 871	366	0	16 237
Tax loss carried forward	41 346	-41 346	0	0
Deferred tax asset, gross	**334 739**	**-21 510**	**-4 967**	**308 262**
Deferred tax provision				
Interest accrued, receivable (income), including:	56 439	6 182	0	62 621
Interest on loans	34 265	4 423	0	38 688
Interest on securities and derivatives	22 059	-426	0	21 633
Discount on securities	115	2 185	0	2 300
Fair value of derivatives (without the currency component) and securities	34 028	400	4 875	39 303
Commission settled using effective interest rate	55 567	3 354	0	58 921
Difference between depreciation for tax and accounting purposes	34 009	2 427	0	36 436
Other	25 358	-19 632	0	5 726
Deferred tax provision, gross	**205 401**	**-7 269**	**4 875**	**203 007**
Deferred tax charge	**129 338**	**-14 241**	**-9 842**	**105 255**
Deferred tax asset, net	**129 338**	**-14 241**	**-9 842**	**105 255**

Notes to the statement of profit or loss (cont.)

For the year ended 31 December 2016	At the beginning of the year	CHANGES		At the end of the year
		Profit or loss statement	Other comprehensive income	
Deferred income tax asset				
Interest accrued, payable (cost), including:	20 372	862	0	21 234
Interest on deposits	18 289	-7 517	0	10 772
Interest on securities and derivatives	2 083	4 466	0	6 549
Discount on securities	0	3 913	0	3 913
Fair value of derivatives (without the currency component) and securities	11 244	28 228	503	39 975
Commission settled using effective interest rate	36 956	9 648	0	46 604
Impairment allowance not recognized as tax-deductible costs	146 768	-9 432	0	137 336
Other (including impairment on other assets)	1 414	-741	0	673
Deferred costs	31 446	254	0	31 700
Other	16 098	-227	0	15 871
Tax loss carried forward	81 875	-40 529	0	41 346
Deferred tax asset, gross	**346 173**	**-11 937**	**503**	**334 739**
Deferred tax provision				
Interest accrued, receivable (income), including:	39 770	16 669	0	56 439
Interest on loans	26 266	7 999	0	34 265
Interest on securities and derivatives	12 446	9 613	0	22 059
Discount on securities	1 058	-943	0	115
Fair value of derivatives (without the currency component) and securities	20 072	23 162	-9 206	34 028
Commission settled using effective interest rate	51 312	4 255	0	55 567
Difference between depreciation for tax and accounting purposes	28 360	5 649	0	34 009
Other	50 492	-25 134	0	25 358
Deferred tax provision, gross	**190 006**	**24 601**	**-9 206**	**205 401**
Deferred tax charge	**156 167**	**-36 538**	**9 709**	**129 338**
Deferred tax asset, net	**156 167**	**-36 538**	**9 709**	**129 338**

Bank's tax calculations for the year 2014 and 2015 were closed with tax loss, for the year 2014 of PLN 189.2 million, for the year 2015 – PLN 246 million. According to tax regulations in the following consecutive five tax years, income can be lowered by the tax loss incurred in the tax year. The utilization in each of these years cannot be higher that 50% of the loss. In the year 2016 the Bank utilized 50% of the loss from the year 2014 and 50% of the loss from the year 2015. In the year 2017 the remaining part of the loss was utilized.

Notes to the statement of profit or loss (cont.)

Calculation of effective tax rate	For the year ended 31 December 2017	For the year ended 31 December 2016
Profit before tax	169 593	286 969
Current income tax at the local tax rate on profit before tax (19%)	-32 223	-54 524
Tax effect of non-deductible expenses	-60 722	-69 530
Tax effect of non-taxable income	2 371	0
effect of dividend income	1 665	0
Tax effect on taxable income and not accounting income	0	-100
Total income tax charge	**-90 574**	**-124 154**

Reconciliation of tax referred to income statement	For the year ended 31 December 2017	For the year ended 31 December 2016
Current income tax	-76 191	-63 786
Correction of current income tax regarding previous years	-142	-23 830
Deferred tax	**-14 241**	**-36 538**
Total income tax charge	**-90 574**	**-124 154**

The regulations concerning value added tax, corporate income tax and liabilities relating to social security are subject to frequent changes. These frequent changes result in lack of appropriate benchmarks, inconsistent interpretations and sparse established precedents that could be applied. The mandatory regulations contain ambiguities resulting in distinction in opinions, regarding the legal interpretation of tax regulation both between state agencies and state agencies and companies.

The tax settlement and other areas of activities (eg. customs and currency issues) could be a subject of control by bodies that are entitled to impose high penalties and fines, and any additional tax liabilities consequent on control must be paid together with high interest. These conditions cause that tax risk in Poland is higher than in countries with more mature tax system.

Consequently the amounts reported and disclosed in the financial statements may change in the future as a result of final decisions of the tax authority .

On 15 July 2016 changes to the Tax Code have been introduced to take account of the standing orders of the General Anti-Abuse Rule (GAAR). GAAR is to prevent the information and use of artificial legal structure created in order to avoid payment of tax in Poland. GAAR defines tax avoidance operation made primarily in order to achieve a tax advantage contrary to the particular circumstances with the object and purpose of the regulations of the Tax Act. According to the GAAR such activities does not result in the achievement of tax advantage if the action was artificial. Any occurrence (I) of unjustified dividing of operation, (II) the involvement of intermediaries, despite the lack of economic justification or economic rationale, (III) elements which cancel each other out or compensate, and (IV) other activities of a similar importance to the previously mentioned, may be treated as a condition for the existence of artificial activities covered by

Notes to the statement of profit or loss (cont.)

GAAR. New regulations will require much greater judgment when assessing the tax implications of particular transactions.

GAAR rule can be applied to the transactions conducted after its coming into force and the transactions that were conducted before GAAR rule went into force, but for which the advantages were or are being achieved after GAAR rule went into effect.

The above rules allow the Polish tax authorities to challenge on the grounds of the tax law legal arrangements and agreements implemented by the taxpayer, such as restructuring and reorganization of the group.

11. Earnings per share

11.1. Profit per share

The profit per share was calculated by dividing net profit attributable to the ordinary holders of Bank by weighted average number of ordinary shares in the reporting period.

In the year 2017 the National Court Register registered split of the existing Bank's shares without changing the share capital amount, due to this profit per share for ordinary shareholders of the Bank both for the year 2017 and 2016 was calculated based on the numbers of shares after split (see note 29).

	For the year ended 31 December 2017	For the year ended 31 December 2016
Net profit attributable to the equity holders of the Bank (in PLN thous.)	79 019	162 815
Weighted average number of ordinary shares in the year (in units)	225 668 340	225 668 340
Profit per one share (in PLN)	**0,4**	**0,7**

11.2. Diluted profit per share

In 2017 and in 2016 there were no diluting events relating to profit per share. Bank did not issue bonds convertible to shares or options for shares. Consequently, the diluted profit per share is equal profit per share.

	For the year ended 31 December 2017	For the year ended 31 December 2016
Net profit attributable to the equity holders of the Bank (in PLN thous.)	79 019	162 815
Weighted average number of ordinary shares in the year (in units)	225 668 340	225 668 340
Diluted profit per one share (in PLN)	**0,4**	**0,7**

Notes to the statement of financial position

12. Cash and balances with the Central Bank

	31 December 2017	31 December 2016
Cash at hand	779 834	667 808
Balances with the Central Bank	536 156	1 064 061
Total	**1 315 990**	**1 731 869**

Intraday the Bank is allowed to use cash deposited on the mandatory reserve accounts for current settlements based on orders sent to the National Bank of Poland. However, the Bank must ensure maintaining an average monthly balance on this account in an appropriate amount as stated in the mandatory reserve declaration. The declared mandatory reserve to be held in December 2017 amounted to PLN 1 202 974 thousand and PLN 1 315 356 thousand in December 2016. These funds bear interest of 0.9 of referencing rate of NBP. As at 31 December 2017 the interest rate amounted to 1.35%, no change compared to the previous year.

13. Amounts due from bank

	31 December 2017	31 December 2016
Collateral deposits	43 309	139 126
Cash on current accounts	12 151	133 797
Loans and advances to banks	47 819	42 429
Gross amounts due from banks:	**103 279**	**315 352**
Impairment allowance	-76	-100
Net amounts due from banks:	**103 203**	**315 252**

The average interest rate of deposits with other banks and loans and advances to banks in 2017 amounted to 1,91% (in 2016 2.34%).

Long term amounts due from banks as at 31 December 2017 amounted to PLN 21 540 thousand (PLN 36 256 thousand as at 31 December 2016).

The principles for recording of repo transactions are presented in note 2.10. There were no „buy sell back" transactions with other banks as at the end of both 2017 and 2016.

Collateral deposits are collaterals for open derivatives with negative valuation, presented in liabilities in "Derivative financial instruments". Starting from the year 2016 derivatives with negative valuation are being collateralized mainly by securities (see note 32).

Notes to the statement of financial position (cont.)

14. Derivative financial instruments and embedded instruments

14.1. Derivative financial instruments

The Bank enters into following derivative instruments, including those used as hedging instruments:

- currency forwards,
- currency options,
- interest rate instruments.

Currency forwards represent commitments to purchase foreign and domestic currencies, including unrealized spot transactions.

Currency and interest rate swaps are commitments to exchange one stream of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps).

No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank uses the same rating methods to measure counterparty risk as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a specified date or during a specified period, a specific amount of a foreign currency or a financial instrument at a predetermined price. In exchange for the exposure to currency risk and interest rate risk, the seller receives a premium from the buyer. Options may be either exchange-traded or negotiated between the Bank and a customer (OTC). The Bank is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The nominal amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments. Therefore, they do not indicate the Bank's exposure to credit or price risks. The fair value of derivative financial instruments can be either positive (assets) or negative (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates related to their terms. The aggregate fair value of derivative financial instruments may fluctuate significantly.

Notes to the statement of financial position (cont.)

14.2. Forward sale agreement of loan portfolio

Bank signed a contract for servicing and subsequently selling overdue retail loans (after those loans become 90 days overdue).

As per servicing agreement, servicer carries out debt collection, and, after Bank terminates its agreement with debtors, enforcement actions towards debtors. During the course of servicing agreement, the loan contracts are terminated and servicer runs enforcement actions for over 6 months. After that, fund purchases out the remaining part of uncollected liabilities. At a point when credit exposure tranche is transferred to be serviced and sold, economically Bank enters into a forward sale contract, which is classified as asset/liability measured at fair value through income statement according to IAS 39. At inception, forward transaction is measured at fair value and subsequently measured at fair value due to material factors changes determining its fair value, with change in selling price being the most important. All changes in fair value are recognized in Bank's statement of profit or loss.

In the event when Bank reassesses the value of notional amount of forward transaction, Bank adjusts the notional amount, taking into account all changes to valuation of forward contract from statement of profit or loss from previous periods.

The agreement and service agreement were terminated on 13 December 2017, with a 3-month notice period with effect at the end of the calendar month, 31 March 2018. Assuming above mentioned service agreement is not taken into account, the impairment for loans and advances to customers will increase by PLN 24.4 million.

Notes to the statement of financial position (cont.)

Fair values of derivative financial instruments are presented below:

	31 December 2017			31 December 2016		
	Nominal value of instruments	Fair values		Nominal value of instruments	Fair values	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments in the trading portfolio						
Currency swaps and forwards (fx swap and fx forward)	24 218 940	320 207	303 324	26 093 194	316 854	243 598
Options acquired or sold OTC	2 740 371	24 070	22 382	2 415 094	20 016	20 506
Currency interest rate swaps (CIRS)	356 323	23	4 791	0	0	0
Total foreign exchange derivatives	**27 315 634**	**344 300**	**330 497**	**28 508 288**	**336 870**	**264 104**
Interest rate swaps (IRS)	14 434 206	91 700	68 773	13 715 389	129 828	83 258
Forward Rate Agreement (FRA)	2 057 945	382	36	500 000	22	0
Total interest rate derivatives	**16 492 151**	**92 082**	**68 809**	**14 215 389**	**129 850**	**83 258**
Loan forward	**116 574**	**0**	**0**	**79 984**	**0**	**0**
Total	**43 924 359**	**436 382**	**399 306**	**42 803 661**	**466 720**	**347 362**
Derivative financial instruments in cash flow hedges						
FX swaps	386 518	10 653	0	1 100 828	0	28 918
Currency interest rate swaps (CIRS)	5 113 748	90 489	150 304	6 256 327	0	1 151 903
Total	**5 500 266**	**101 142**	**150 304**	**7 357 155**	**0**	**1 180 821**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	108 000	0	11 926	121 549	0	17 992
Total	**108 000**	**0**	**11 926**	**121 549**	**0**	**17 992**
Total derivative financial instruments	**49 532 625**	**537 524**	**561 536**	**50 282 365**	**466 720**	**1 546 175**

Notes to the statement of financial position (cont.)

15. Hedge accounting

The Bank applies hedge accounting in fair value hedges of granted fixed rate loans. The Bank uses interest rate swaps as hedging instruments to pay a fixed interest rate coupon in exchange for floating interest rate coupon.

At the end of December 2005, the Bank granted a fixed interest rate loan for a period of 15 years with a nominal value of EUR 45 million and hedged it with an interest rate swap with a nominal value of EUR 44.9 million. The change in the valuation of the loan and of the hedging transaction for the year ended 31 December 2017 and ended 31 December 2016 is presented in the tables below. The information on the ineffective portion of the hedge recognized to the statement of profit or loss is presented in note 7.

	For the year ended 31 December 2017	For the year ended 31 December 2016
Result on change in fair value of hedging instrument	6 075	2 556
Result on change in fair value of hedged instrument	-5 468	-1 636
Result on fair value hedge accounting	**607**	**920**
Interest result on derivative hedge instrument	-4 835	-5 207
	For the year ended 31 December 2017	**For the year ended 31 December 2016**
Nominal value of hedging instrument	108 000	121 549
Nominal value of hedged instrument	108 000	121 549

The Bank applies hedge accounting in cash flow hedges to hedge both interest rate risk and currency risk arising from floating rate loans granted in CHF, EUR and USD and floating interest rate deposits based on WIBOR. The Bank uses:

- cross-currency interest rate swaps to pay CHF LIBOR 3M coupon and receive WIBOR 3M coupon, based on the nominal amount defined respectively in CHF and in PLN, and a forward transaction to sell CHF,

- forward transaction to sell CHF, EUR, USD,

- cross-currency interest rate swaps to pay EUR LIBOR 3M coupon and receive WIBOR 3M coupon, based on the nominal amount defined respectively in EUR and in PLN.

The above mentioned interest rate swaps hedge also changes in fair value of designated loan portfolio due to risk relating to changes in foreign exchange rates. The nominal value of CHF and EUR loan portfolio is designated as the hedged item.

Nominal and fair values of hedging derivatives are presented in note 14.

Amounts recognized in the statement of profit or loss and in other capital and reserves for cash flow hedges are presented in the table below.

Notes to the statement of financial position (cont.)

	For the year ended 31 December 2017	For the year ended 31 December 2016
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross)	21 294	8 860
Net interest income on hedging derivatives	158 672	189 000
Ineffective change in fair value of hedging transactions presented in the profit or loss statement.	3 687	5 013

Changes in revaluation reserve for cash flow hedge are presented in the table below (not including tax effect):

	For the year ended 31 December 2017	For the year ended 31 December 2016
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) at the beginnig of the year	**-37 998**	**-46 858**
Revaluation reserves (revaluation with interests realized within the year)	1 270 626	-150 892
Interest result on derivative financial instruments in cash flow hedges	-158 672	-189 000
Result on revaluation of derivative financial instruments in cash flow hedges	-1 086 974	353 765
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an ineffective hedge - gross)	-3 687	-5 013
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) at the end of the year	**-16 705**	**-37 998**

In the amount of PLN 16 705 thousand presented in the revaluation reserves, PLN 16 765 thousand relates to the effective part of cash flow hedge hedged with CIRS transactions. In this amount the part hedging cash flows from loans amounted to PLN 40 071 thousand and part hedging to cash flows from deposits amounted to PLN -56 836 thousand.

It is expected that the hedging relation (concerning cash flow hedge) will generate cash flows in the period until May 2022.

Notes to the statement of financial position (cont.)

The below tables present nominal values of hedging derivatives in division to contractual periods of maturity:

31 December 2017	Maturity					Total
	within 1 months	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Derivative financial instruments in cash flow hedges						
Currency swaps and forwards (fx swaps and fx forwards)	147 110	239 408	0	0	0	386 518
Currency interest rate swaps (CIRS)	0	0	513 795	4 599 953	0	5 113 748
Total	**147 110**	**239 408**	**513 795**	**4 599 953**	**0**	**5 500 266**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	0	0	0	108 000	0	108 000
Total	**0**	**0**	**0**	**108 000**	**0**	**108 000**

31 December 2016	Maturity					Total
	within 1 months	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Derivative financial instruments in cash flow hedges						
Currency swaps and forwards (fx swaps and fx forwards)	279 103	821 725	0	0	0	1 100 828
Currency interest rate swaps (CIRS)	0	343 849	851 200	4 867 353	193 925	6 256 327
Total	**279 103**	**1 165 574**	**851 200**	**4 867 353**	**193 925**	**7 357 155**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	0	0	0	121 549	0	121 549
Total	**0**	**0**	**0**	**121 549**	**0**	**121 549**

Notes to the statement of financial position (cont.)

16. Financial assets held for trading

Financial assets held for trading	31 December 2017	31 December 2016
Bonds and bills issued by the State Treasury	795 514	371 779
Money bills NBP	0	7 393 915
Other financial bonds	349 523	0
Corporate bonds	69 246	278 225
Mortgage bonds	16 120	3 423
Total	**1 230 403**	**8 047 342**

Financial assets held for trading bear interest based on floating market interest rates. Non-current receivables arising from financial instruments measured at fair value at the end of 2017 amounted to PLN 695 493 thousand (PLN 620 560 thousand at the end of 2016).

17. Investment securities

For the year ended 31 December 2017	At the beginning of the year	Increases	Decreases (sale and redemption)	Change of accrued interests, discount and valuation	Foreign exchange differences	Impairment	At the end of the year
Investment securities held to maturity							
Treasury bonds	3 475 082	1 164 400	-1 562 400	-36 459	0	0	3 040 623
Total held to maturity	**3 475 082**	**1 164 400**	**-1 562 400**	**-36 459**	**0**	**0**	**3 040 623**
Investment securities available for sale							
Equity investments	45 540	0	0	6 670	-2 998	0	49 212
Financial instruments blocked for BFG*	229 409	0	0	1 115	0	0	230 524
Other financial bonds	0	150 000	0	2 118	0	0	152 118
Corporate bonds	293 895	222 853	-289 686	1 832	0	27 159	256 053
Treasury bonds	3 904 028	3 242 500	-2 813 000	27 576	0	0	4 361 104
Money bills NBP	0	20 220 000	-15 660 000	-1 248	0	0	4 558 752
Total available for sale	**4 472 872**	**23 835 353**	**-18 762 686**	**38 063**	**-2 998**	**27 159**	**9 607 763**
Total	**7 947 954**	**24 999 753**	**-20 325 086**	**1 604**	**-2 998**	**27 159**	**12 648 386**

For the year ended 31 December 2016	At the beginning of the year	Increases	Decreases (sale and redemption)	Change of accrued interests, discount and valuation	Foreign exchange differences	Impairment	At the end of the year
Investment securities held to maturity							
Treasury bonds	1 964 957	1 487 809	0	22 316	0	0	3 475 082
Total held to maturity	**1 964 957**	**1 487 809**	**0**	**22 316**	**0**	**0**	**3 475 082**
Investment securities available for sale							
Equity investments	80 895	524	-40 837	0	2 611	2 348	45 540
Financial instruments blocked for BFG*	228 816	0	0	593	0	0	229 409
Corporate bonds	319 970	126 798	-112 557	-13 157	0	-27 159	293 895
Treasury bonds	1 232 417	3 916 841	-1 248 697	3 467	0	0	3 904 028
Total available for sale	**1 862 098**	**4 044 163**	**-1 402 091**	**-9 097**	**2 611**	**-24 811**	**4 472 872**
Total	**3 827 055**	**5 531 972**	**-1 402 091**	**13 219**	**2 611**	**-24 811**	**7 947 954**

* treasury bonds

Notes to the statement of financial position (cont.)

Information on fair value of financial investment is presented in note 37.

As at 31 December 2017 impairment allowance on equity investment amounted to PLN 12 200 thousand, no changes compared to 31 December 2016.

Non-current receivables from investment securities as at the end of 2017 amounted to PLN 5 219 931 thousand (PLN 6 228 391 thousand as at the end of 2016).

18. Loans and advances to customers

Loans and advances to customers by borrower segment	31 December 2017			31 December 2016		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Individual customers	18 270 159	754 045	17 516 114	20 322 980	691 140	19 631 840
Micro customers	2 856 035	453 933	2 402 102	2 860 503	368 895	2 491 608
Large enterprises	11 611 785	610 790	11 000 995	10 955 875	610 151	10 345 724
SME	1 445 157	52 562	1 392 595	1 358 375	46 665	1 311 710
Public sector	105 727	744	104 983	87 572	449	87 123
Total	**34 288 863**	**1 872 074**	**32 416 789**	**35 585 305**	**1 717 300**	**33 868 005**

Non-current receivables from loans and advances to customers as at the end of 2017 amounted to PLN 25 380 246 thousand (PLN 26 972 105 thousand as at the end of 2016).

Information on the net provisioning for impairment losses on financial assets and provisions for off-balance sheet items is presented in note 5.

Both as at 31 December 2017 and as at 31 December 2016 there were not repurchase transaction (buy sell back) with clients.

Notes to the statement of financial position (cont.)

Loans and advances to customers by quality									
31 December 2017									
	Loans and advances to customers -without impairment trigger and not impaired	**Group impairment allowance IBNR**	**Loans and advances to customers -with impairment trigger but not impaired**	**Group impairment allowance IBNR**	**Impaired loans and advances valued with individual method**	**Individual impairment allowance**	**Impaired loans and advances to customers valued with group method**	**Group impairment allowance**	**Net amount**
Individual customers	17 204 047	57 020	5 501	0	12 186	6 367	1 048 425	690 658	17 516 114
Micro customers	2 061 685	24 116	0	0	27 304	14 718	767 046	415 099	2 402 102
Large enterprises	9 961 730	31 619	703 731	31 426	946 324	547 745	0	0	11 000 995
SME	1 367 671	2 712	13 862	958	63 624	48 892	0	0	1 392 595
Public sector	105 727	744	0	0	0	0	0	0	104 983
Total	**30 700 860**	**116 211**	**723 094**	**32 384**	**1 049 438**	**617 722**	**1 815 471**	**1 105 757**	**32 416 789**

Loans and advances to customers by quality									
31 December 2016									
	Loans and advances to customers -without impairment trigger and not impaired	**Group impairment allowance IBNR**	**Loans and advances to customers -with impairment trigger but not impaired**	**Group impairment allowance IBNR**	**Impaired loans and advances valued with individual method**	**Individual impairment allowance**	**Impaired loans and advances to customers valued with group method**	**Group impairment allowance**	**Net amount**
Individual customers	19 276 672	52 665	10 518	0	28 940	13 228	1 006 850	625 247	**19 631 840**
Micro customers	2 113 321	14 331	0	0	31 030	16 742	716 152	337 822	**2 491 608**
Large enterprises	9 456 907	46 018	527 026	15 695	971 942	548 438	0	0	**10 345 724**
SME	1 284 748	2 730	18 373	1 270	55 254	42 665	0	0	**1 311 710**
Public sector	87 572	449	0	0	0	0	0	0	**87 123**
Total	**32 219 220**	**116 193**	**555 917**	**16 965**	**1 087 166**	**621 073**	**1 723 002**	**963 069**	**33 868 005**

Notes to the statement of financial position (cont.)

19. Investments in subsidiaries

	31 December 2017	31 December 2016
Leasing Poland Sp. z o.o	0	14 600
Raiffeisen Financial Services Polska Sp. z o.o.	12 245	12 245
Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.	4 000	4 000
Raiffeisen Solutions Sp. z o.o.	14 650	9 650
Total	**30 895**	**40 495**

The Extraordinary General Meeting of Shareholders of Leasing Poland, whose the only shareholder is Raiffeisen Bank Polska S.A. on 28 September 2017 took decision to terminate the company and put it into liquidation status as at 1 October 2017. As at 27 December 2017 the Leasing Poland's liquidation financial statement was prepared. On 28 December 2017 the Liquidators divided the Company's property remaining after the liquidation process. On 28 December 2017 cash in the amount of PLN 16 008 thousand was transferred to the Bank's account. Result on the liquidation of the Company was presented in Line Net income from instruments measured at fair value and from foreign exchange result, in item Net income realized and unrealized on equity instruments.

The most significant information on consolidated subsidiaries is presented in the table below:

Name of subsidiary	Country of residence	Assets	Liabilities	Income	Net income	Share (%)
31 December 2017						
Raiffeisen-Leasing Polska S.A.	Poland	25 703	1 113	18 912	12 161	99.99%
Raiffeisen Financial Services Polska Sp. z o.o.	Poland	25	2 994	86	-86	100%
Raiffeisen Investment Polska Sp. z o.o.	Poland	62 159	59 857	5 673	-4 657	100%
Raiffeisen Solutions Sp. z o.o.	Poland	3 975	83	1 698	190	100%
31 December 2016						
Raiffeisen-Leasing Polska S.A.	Poland	24 270	3 075	16 170	8 948	99.99%
Raiffeisen Financial Services Polska Sp. z o.o.	Poland	19	2 902	251	-1 505	100%
Raiffeisen Investment Polska Sp. z o.o.	Poland	29 200	27 241	2 775	-3 442	100%
Raiffeisen Solutions Sp. z o.o.	Poland	3 733	32	55	-298	100%

In the 2017 year the Bank received dividend from Raiffeisen Financial Services Polska Sp. z o.o. in the amount of PLN 8 764 thousand.

On 31 March 2016 the Bank sold its shares of Raiffeisen-Leasing Polska S.A. („RLPL") to Raiffeisen Bank International AG. The purpose of the transaction was to improve the Group's capital ratios according to the

Notes to the statement of financial position (cont.)

PFSA recommendation. Result on sale of shares of PLN 202 313 thousand (before tax) was presented in line Result on sale of shares in subsidiary.

20. Intangible assets

For the year ended 31 December 2017	"Polbank" brand	Relations with customers	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT						
At the beginning of the year	**200 000**	**70 400**	**668 727**	**49 704**	**1 984**	**990 815**
Direct additions	0	0	2 946	33 908	3 187	**40 041**
Internal development or reclassification	0	0	39 033	-39 033	0	**0**
Disposals	-200 000	0	-53 728	-1 418	0	**-255 146**
At the end of the year	**0**	**70 400**	**656 978**	**43 161**	**5 171**	**775 710**
ACCUMULATED AMORTIZATION						
At the beginning of the year	**0**	**53 593**	**465 739**	**0**	**0**	**519 332**
Amortization charge	0	5 840	34 516	0	0	**40 356**
Disposals	0	0	-51 747	0	0	**-51 747**
At the end of the year	**0**	**59 433**	**448 508**	**0**	**0**	**507 941**
IMPAIRMENT						
At the beginning of the year	**86 000**	**0**	**0**	**1 460**	**0**	**87 460**
Decreases	-86 000	0	0	-1 460	0	**-87 460**
At the end of the year	**0**	**0**	**0**	**0**	**0**	**0**
NET AMOUNT						
At the beginning of the year	**114 000**	**16 807**	**202 988**	**48 244**	**1 984**	**384 023**
At the end of the year	**0**	**10 967**	**208 470**	**43 161**	**5 171**	**267 769**

For the year ended 31 December 2016	Goodwill	"Polbank" brand	Relations with customers	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT							
At the beginning of the year	**32 966**	**200 000**	**70 400**	**669 269**	**34 389**	**8 820**	**1 015 844**
Direct additions	0	0	0	1 438	45 771	0	**47 209**
Internal development or reclassification	0	0	0	27 379	-27 379	0	**0**
Disposals	-32 966	0	0	-29 359	-3 077	-6 836	**-72 238**
At the end of the year	**0**	**200 000**	**70 400**	**668 727**	**49 704**	**1 984**	**990 815**
ACCUMULATED AMORTIZATION							
At the beginning of the year	0	**0**	**43 835**	**436 004**	**0**	**0**	**479 839**
Amortization charge	0	0	9 758	51 087	0	0	**60 845**
Disposals	0	0	0	-21 352	0	0	**-21 352**
At the end of the year	**0**	**0**	**53 593**	**465 739**	**0**	**0**	**519 332**
IMPAIRMENT							
At the beginning of the year	**0**	**0**	**0**	**10**	**649**	**0**	**658**
At the end of the year	**0**	**86 000**	**0**	**0**	**1 460**	**0**	**87 460**
NET AMOUNT							
At the beginning of the year	**32 966**	**200 000**	**26 565**	**233 255**	**33 740**	**8 820**	**535 347**
At the end of the year	**0**	**114 000**	**16 807**	**202 988**	**48 244**	**1 984**	**384 023**

Notes to the statement of financial position (cont.)

In 2017 and 2016, there were no restrictions as to the legal title to intangible assets related to collateral of liabilities.

The amount of contractual commitments for the acquisition of intangible assets as of 31 December 2017 equaled to PLN 525 thousand (as of 31 December 2016 equaled to zero).

In the year 2017 the Bank's intangible assets included the "Polbank" brand and customer relationships which were recognized as a result of acquisition of Polbank EFG S.A. (see note 3.5 to the financial statements).

"Polbank" brand have indefinite useful lives, therefore it is not amortized but is subject to annual impairment tests. Due to decision to perform Bank's digital evolution and optimization in years 2017 – 2019, as at 31 March 2017 the Bank conducted an impairment test of "Polbank" brand, which resulted in write off in full of "Polbank" brand of PLN 114 000 thousand. The expenses relating to "Polbank" brand write off of PLN 114 000 thousand were presented in line Other operating expenses.

Customer relationships are amortized using diminishing method for 5 years (deposits) and 10 years (loans). If impairment triggers are identified the assets are subject to periodic impairment tests (see note 2.16.2. to the financial statements).

The impairment test of the above presented intangible assets has been described in note 3.5 to the financial statements.

As of 31 December 2017 the Bank recognized impairment on computer software under development due to decisions not to continue selected projects.

Notes to the statement of financial position (cont.)

21. Property, plant and equipment

For the year ended 31 December 2017	Buildings, apartments and leasehold improvements	Technical equipment and machinery	Vehicles	Other tangible assets	Assets under construction	Advances for property, plant and equipment	Total
GROSS AMOUNT							
At the beginning of the year	**178 502**	**264 708**	**44**	**31 858**	**3 198**	**0**	**478 310**
Direct additions	165	6 363	0	123	5 745	1 696	**14 092**
Internal development or reclassification	1 689	4 024	0	14	-5 727	0	**0**
Disposals	-25 556	-23 122	0	-7 441	-125	0	**-56 244**
At the end of the year	**154 800**	**251 973**	**44**	**24 554**	**3 091**	**1 696**	**436 158**
ACCUMULATED AMORTIZATION							
At the beginning of the year	**118 979**	**215 538**	**32**	**23 614**	**0**	**0**	**358 163**
Depreciation charge	10 064	19 975	4	1 620	0	0	**31 663**
Disposals	-19 392	-20 211	0	-7 374	0	0	**-46 977**
At the end of the year	**109 651**	**215 302**	**36**	**17 860**	**0**	**0**	**342 849**
IMPAIRMENT							
At the beginning of the year	**693**	**1 387**	**0**	**0**	**0**	**0**	**2 080**
Additions	8 346	4 628	0	403	0	0	**13 377**
Decreases	-5 849	-3 971	0	-311	0	0	**-10 131**
At the end of the year	**3 190**	**2 044**	**0**	**92**	**0**	**0**	**5 326**
NET AMOUNT							
At the beginning of the year	**58 830**	**47 783**	**12**	**8 244**	**3 198**	**0**	**118 067**
At the end of the year	**41 959**	**34 627**	**8**	**6 602**	**3 091**	**1 696**	**87 983**

Notes to the statement of financial position (cont.)

For the year ended 31 December 2016	Buildings, apartments and leasehold improvements	Technical equipment and machinery	Vehicles	Other tangible assets	Assets under construction	Advances for property, plant and equipment	Total
GROSS AMOUNT							
At the beginning of the year	**212 172**	**324 272**	**30**	**34 010**	**8 820**	**2 884**	**582 188**
Direct additions	168	2 681	0	4 924	33 744	0	**41 517**
Internal development or reclassification	28 534	9 148	14	57	-37 753	0	**0**
Disposals	-62 372	-71 393	0	-7 133	-1 613	-2 884	**-145 395**
At the end of the year	**178 502**	**264 708**	**44**	**31 858**	**3 198**	**0**	**478 310**
ACCUMULATED AMORTIZATION							
At the beginning of the year	**164 809**	**256 499**	**29**	**28 721**	**0**	**0**	**450 057**
Depreciation charge	10 469	25 460	3	1 814	0	0	**37 746**
Disposals	-56 247	-66 813	0	-6 999	0	0	**-130 059**
Reclassification	-52	392	0	78	0	0	**418**
At the end of the year	**118 979**	**215 538**	**32**	**23 614**	**0**	**0**	**358 162**
IMPAIRMENT							
At the beginning of the year	**994**	**4 418**	**0**	**18**	**1 703**	**0**	**7 134**
Additions	5 440	1 356	0	59	0	0	**6 855**
Decreases	-5 741	-4 387	0	-77	-1 703	0	**-11 908**
At the end of the year	**693**	**1 387**	**0**	**0**	**0**	**0**	**2 080**
NET AMOUNT							
At the beginning of the year	**46 369**	**63 355**	**1**	**5 271**	**7 117**	**2 884**	**124 997**
At the end of the year	**58 830**	**47 783**	**12**	**8 244**	**3 198**	**0**	**118 067**

In 2017 and 2016, there were no restrictions as to the legal title to property, plant and equipment and intangible assets are not pledged as collateral in borrowing transactions.

The amount of contractual commitments for the acquisition of property, plant and equipment as of 31 December 2017 equaled to PLN 4 461 thousand (PLN 2 669 thousand as of 31 December 2016). The agreements will be executed within one year.

As at 31 December 2017 and 31 December 2016, the Bank did not use any other property, plant and equipment in financial leases.

As at 31 December 2017 Bank recognized impairment of property, plant and equipment due to decisions not to further use selected assets.

Notes to the statement of financial position (cont.)

22. Other assets

	31 December 2017	31 December 2016
Financial assets gross		
Collection of bills and cheques	150	2 451
Sundry debtors	96 401	81 578
Settlements with brokerage offices – receivables	5 039	4 757
Settlements of payment cards transactions - receivables	107 105	101 513
Total financial assets, gross	**208 695**	**190 299**
Impairment allowance	-6 753	-12 703
Total financial assets, net	**201 942**	**177 596**
Non-financial assets gross		
Accruals and prepayments	24 720	35 911
Income receivable	1 544	1 566
Assets acquired for debt	2 017	2 580
Total non-financial assets, gross	**28 281**	**40 057**
Total non-financial assets, net	**28 281**	**40 057**
Total	**230 223**	**217 653**

Non-current receivables as at the end of 2017 amounted to PLN 29 535 thousand (PLN 28 275 thousand at the end of 2016) and comprised mainly preliminary settlement deposit made by the Bank which enables Bank's clients to conclude transaction on the Warsaw Stock Exchange and operate as remote stock exchange member and additional payout within "deferred payment" from realization of the takeover of Visa Europe Limited by Visa Inc.

Change in impairment allowances on other receivables	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**
At the beginning of the year	**12 703**	**3 496**
Impairment allowance recorded	4 351	12 597
Use of impairment allowance	-1 077	-133
Reversal of impairment allowance	-9 224	-3 257
At the end of the year	**6 753**	**12 703**

23. Amounts due to banks and other monetary institutions

	31 December 2017	31 December 2016
Current accounts	521 679	140 168
Term deposits	113 432	194 067
Loans received	5 144 754	7 099 171
Total	**5 779 865**	**7 433 406**

Non-current amounts due to banks and other monetary financial institutions amounted PLN 1 595 675 thousand at the end of 2017 (PLN 4 925 126 thousand at the end of 2016).

Notes to the statement of financial position (cont.)

As at 31 December 2017 and 2016 value of repurchase agreements (sell buy back) with banks and other monetary institutions equaled zero.

24. Amounts due to customers

	31 December 2017	31 December 2016
Amounts due to individuals	17 353 150	18 218 007
Amounts due to micro customers	2 740 881	2 565 414
Amounts due to large enterprises	11 279 103	12 358 879
Amounts due to SME	3 019 122	3 219 506
Amounts due to the public sector	0	1
Total	**34 392 256**	**36 361 807**

Non-current amounts due to customers amounted to PLN 34 330 thousand at the end of 2017 (PLN 62 612 thousand at the end of 2016).

The value of repurchase agreements (sell buy back) with clients as at 31 December 2017 and 31 December 2016 amounted to zero.

25. Subordinated liabilities

	31 December 2017	31 December 2016
A loan of EUR 25 million due in 2017	0	110 849
A loan of EUR 50 million due in 2024	208 618	221 247
A loan of CHF 240 million due in 2024	856 241	0
Total	**1 064 859**	**332 096**

Subordinated loans will be repaid by the Bank on the date of their maturity. In both 2017 and 2016 the Bank did not record any delays in repayment schedules of interest and capital nor violated any other contractual terms concerning its liabilities. The loans are not additionally secured. All loans were granted by Raiffeisen Bank International.

In accordance with the decisions of the Polish Financial Supervision Authority (PFSA), the Bank can classify subordinated liabilities as its own. For the purpose of calculating the Bank’s own funds, the amounts constituting subordinated loans classified as own funds are gradually amortized in accordance with the regulations of the Polish Financial Supervision Authority.

The amount of subordinated debt as at the end of 2017 equaled PLN 1 064 859 thousand (PLN 221 247 thousand as at 31 December 2016).

Notes to the statement of financial position (cont.)

26. Liabilities from debt securities issued

For the year ended 31 December 2017	At the beginning of the year	Decreases due to repayment	Decreases - payment of interests	Change of accrued interests, discount and valuation	At the end of the year
Liabilities from debt securities issued	501 830	-500 000	-15 550	13 720	0
Total	**501 830**	**-500 000**	**-15 550**	**13 720**	**0**

For the year ended 31 December 2016	At the beginning of the year	Decreases - payment of interests	Change of accrued interests, discount and valuation	At the end of the year
Liabilities from debt securities issued	501 825	-15 390	15 395	501 830
Total	**501 825**	**-15 390**	**15 395**	**501 830**

At 19 November 2014 the Bank issued "Series A bearer bonds of Raiffeisen Bank Polska S.A." amounting to PLN 500 million. These bonds are not secured, non – subordinated, denominated in PLN maturing at 19 November 2017. The bonds' interest rate is based on Wibor 6M increase by 1,3% interest margin . The interests were paid in semi – annual periods. On the above mentioned date the Banks repaid these bonds.

The issue of "Series A bearer bonds of Raiffeisen Bank Polska S.A." was carried out under Bank's corporate bonds issuance plan in total amount of PLN 2 billion.

27. Other liabilities

	31 December 2017	31 December 2016
Financial liabilities		
Interbank settlements	239 089	180 577
Settlements with brokerage offices	1 382	40 638
Sundry creditors and accruals	154 786	165 343
Settlements related to payment cards	30 705	30 730
Total financial liabilities gross	**425 962**	**417 288**
Non-financial liabilities		
Deferred income	70 097	62 448
Social and legal settlements	33 809	31 764
Other	2 060	1 231
Total non-financial liabilities gross	**105 966**	**95 443**
Total	**531 928**	**512 731**

Non-current liabilities as at 31 December 2017 amounted to PLN 45 125 thousand (PLN 53 638 thousand as at 31 December 2016).

Notes to the statement of financial position (cont.)

28. Provisions

For the year ended 31 December 2017	At the beginning of the year	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreign exchange differences	At the end of the year
Provisions for off-balance sheet liabilities assessed individually	25 554	21 316	-22 875	0	-1 270	22 725
Provisions for off-balance sheet liabilities assessed collectively IBNR	5 444	4 351	-2 548	0	-138	7 109
Total provisions for off-balance sheet items	**30 998**	**25 667**	**-25 423**	**0**	**-1 408**	**29 834**
Provisions for disputes and claims	14 291	735	-135	-700	0	14 191
Provision for jubilee benefits	0	0	0	0	0	0
Provision for bonus payments	65 633	76 645	-39 333	-47 205	-145	55 595
Provision for overdue vacations	16 001	0	-290	-1 711	0	14 000
Provision for pension and death benefits	3 237	57	0	-92	0	3 202
Restructuring provision	16 045	31 701	-6	-21 289	0	26 451
Total provisions	**115 208**	**109 138**	**-39 764**	**-70 997**	**-145**	**113 440**
Total	**146 206**	**134 805**	**-65 187**	**-70 997**	**-1 553**	**143 274**

For the year ended 31 December 2016	At the beginning of the year	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreign exchange differences	At the end of the year
Provisions for off-balance sheet liabilities assessed individually	41 228	26 084	-42 406	0	648	25 554
Provisions for off-balance sheet liabilities assessed collectively IBNR	8 556	2 901	-6 085	0	72	5 444
Total provisions for off-balance sheet items	**49 784**	**28 985**	**-48 491**	**0**	**720**	**30 998**
Provisions for disputes and claims	16 047	2 067	-1 023	-2 800	0	14 291
Provision for bonus payments	50 268	81 802	-31 974	-34 463	0	65 633
Provision for overdue vacations	20 002	24 721	-26 888	-1 834	0	16 001
Provision for pension and death benefits	3 359	0	-110	-12	0	3 237
Restructuring provision	9 709	27 519	-909	-20 274	0	16 045
Total provisions	**99 386**	**136 109**	**-60 904**	**-59 383**	**0**	**115 208**
Total	**149 170**	**165 094**	**-109 395**	**-59 383**	**720**	**146 206**

Impairment provisions for off-balance sheet commitments include impairment provisions for financial guarantees. Financial guarantees and other off-balance sheet commitments are discussed in note 30.

As at 31 December 2017 provisions for legal disputes comprised, mainly:

- provision resulting from the penalty imposed on the Bank by the Office of Competition and Consumer Protection (OCCP) in October 2014 concerning the practices connected with concluding of agreements with customers relating to membership of the group insurance for life and endowment programm called "Program Pomnażania Oszczędności Kumulatus". The penalty amounted to PLN 21 122 thousand. The decision is not final. The Bank appealed against the decision and raised a provision for this penalty in the

Notes to the statement of financial position (cont.)

amount of PLN 10 561 thousand, because in its opinion the possible outflow will not exceed the amount of the provision,

- provision in the amount of PLN 1 528 (PLN 1 663 thousand as at 31 December 2016) for potential claims resulting from disputes with former Polbank franchisee partners.

- provision in the amount of PLN 735 from the concluded agreements (retention) with the Banks's franchise partners.

- provision in the amount of PLN 1 367 thousand relating to legal disputed from the settlement of the option transactions.

The amount of long term provisions as at 31 December 2017 equaled PLN 19 752 thousand (PLN 21 644 thousand as at 31 December 2016) and referred to retirement, pension and death benefits, provision for overdue vacations as well as Share Incentive Program designed for the Board Members of the Bank.

The restructuring provision as at 31 December 2017, in the amount of PLN 26 451 thousand (PLN 16 045 thousand as at 31 December 2016) has been created mainly for the purpose of severance payments resulting from the restructuring programs, as well as costs associated with the liquidation of the Bank's branches. The change of the provision compared to the year 2016 resulted mainly from usage of the provision for the realization of employment and branches optimization program from the previous years and from creation of the restructuring provision as a consequence of the decision to conduct the program of digital evolution and optimization of the Bank for 2017-2019.

29. Equity

All shares have been paid in full. All shares have exactly the same voting and dividend rights. Raiffeisen Bank International AG (RBI) is the only shareholder, currently in possession of 100% of the Bank's share capital.

Raiffeisen Bank International AG has been created from separated areas of Raiffeisen Zentralbank Österreich AG (RZB) and Raiffeisen International Bank-Holding AG (RI). As at 31 December 2017 the Regional Raiffeisen banks hold 58.8% stake in RBI. The remaining part of the share capital is in free float on the Vienna Stock Exchange, where RBI has been listed since 2005.

Notes to the statement of financial position (cont.)

Registered share capital	Par value of shares held		Number of shares (in units)	
	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016
At the beginning of the year	2 256 683	2 256 683	248 260	248 260
At the end of the year	**2 256 683**	**2 256 683**	**225 668 340**	**248 260**

The Extraordinary General Meeting convened for 29 September 2016 passed resolutions to amend the Bank's Articles of Association, which related among others to changing the number and par value of the Bank shares by split of the existing shares without changing the share capital amount so that the share capital shall be divided into 225 668 340 shares with a par value of PLN 10 and all existing shares shall become new Series AA shares.

An application for registration of the amendments was filed with the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, on 7 November 2016.

On 14 February 2017, the Bank was notified of the registration of the amendments to the Articles of Association by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register.

Other capital and reserves	31 December 2017	31 December 2016
General banking risk reserve	1 025 019	995 019
Settlement of the purchase of the organized part of entity	-3 883	-3 883
Valuation of avaliable for sale financial assets	19 316	-5 391
Valuation of derivatives hedging the net cash flow	-13 531	-30 779
Brokerage activities reserve	1 000	1 000
Other reserves	**46 522**	**46 522**
At the end of the year	**1 074 443**	**1 002 488**

Dividends

Based on recommendations of the Management Board and the Supervisory Board the Bank did not pay dividend from 2016 profit. The Management Board of the Bank would not recommend dividend payment from 2017 profit.

Other notes (cont.)

Other notes

30. Contingent liabilities

The table below presents contingent liabilities and contingent assets arising from the contracts:

	31 December 2017	31 December 2016
Guarantees issued		
Bank guarantees	1 890 896	1 739 565
Letters of credit and bank acceptances	227 425	188 697
Total guarantees issued	**2 118 321**	**1 928 262**
Financial liabilities granted		
Granted loan commitments:	6 900 704	7 136 072
With initial maturity up to 1 year	3 692 439	3 402 756
With initial maturity above 1 year	3 208 265	3 733 316
Total financial liabilities granted	**6 900 704**	**7 136 072**
Total	**9 019 024**	**9 064 334**

	31 December 2017	31 December 2016
Guarantees received	5 278 657	5 871 309
Total	**5 278 657**	**5 871 309**

All loan commitments of the Bank are unconditional, except for granted and unused tranches of mortgage loans and investment loans for small and medium enterprises. A detailed description of the risks related to off-balance commitments is presented in the notes on risk management.

Legal disputes

The total disputed amount in litigations against the Bank equaled PLN 183 223 thousand as at 31 December 2017 (PLN 52 465 thousand as at 31 December 2016). The Bank created provisions for cases in which probability of economic outflow was higher than 50%. For the remaining part of litigations against the Bank the risk of economic outflow is estimated as possible (below 50%).

As at 31 December 2017 the total value of provisions for litigations against the Bank amounted to PLN 3 630 thousand (mainly provisions for claims of former franchisee partners of the Bank and claims of the settlement transaction's options; PLN 3 730 thousand as at 31 December 2016). The decrease of the provisions was mainly due to concluded settlements or closed proceedings, see note 28 of the financial statements.

In December 2016 Office of Competition and Consumer Protection (OCCP) issued a decision, in which it decided that the Bank infringed the collective consumer interests by not taking into account of negative

Other notes (cont.)

LIBOR and after withdrawing this practice the Bank did not calculate negative interests on loans in the Swiss franc. In its decision OCCP fined Bank with PLN 3.5 million. The decision is not final, the Bank filed an appeal to the Consumer and Competition Protection Court. In both in 2017 and in 2016 in the Bank's opinion the risk of economic outflow is estimated below 50% due to this no provision for this case was created.

The above information does not concern (similarly to 2016), due to their character, the cases with the Consumer and Competition Protection Court. The value of provisions for these cases as at 31 December 2017 equaled similarly like as at 31 December 2016 to PLN10 561.

31. The Bank as a lessee

In the case of operating leases where the Bank is a lessee, the minimum future lease payments resulting from irrevocable operating lease agreements are as follows:

	31 December 2017	31 December 2016
Up to 1 year	84 037	102 714
1 to 5 years	193 665	211 935
More than 5 years	93 764	120 740
Total	**371 466**	**435 389**

The liabilities listed in the table are related to signed operating lease agreements for buildings or apartments for the needs of the Bank's business activities, and operating leases of cars.

32. Pledged assets and of limited disposability

In the following table the information about financial pledged assets or about assets of limited disposability is presented.

	Note	31 December 2017	31 December 2016
Cash and balances with Central Bank	12		
Mandatory reserves with the Central Bank		536 156	1 064 061
Amounts due from banks	13		
Collateral deposits and other		43 309	139 126
Investment securities	17		
Treasury bonds as collateral for derivatives		42 960	1 185 902
Treasury bonds as collateral for a loan received		0	254 865
Financial instruments blocked for BFG		230 524	229 409
Loans and advances to customers	18		
Collateral deposits for currencies oparations - receivables		43 290	5 343

Other notes (cont.)

33. Sale of receivables

In 2017, the Bank sold impaired loans and advances to customers with total capital value of PLN 187 617 thousand (in 2016 of PLN 122 779 thousand). Portfolios consisted of receivables granted to individuals, micro-entrepreneurs, and corporations. Receivables were in significant part covered by impairment allowance or fully written off from Bank's balance sheet. Total result from transactions of sale of these receivables amounted to PLN 66 718 thousand (in 2016 of PLN 12 183 thousand) and was presented in line "Net provision for impairment losses on financial assets and provisions for off-balance sheet items". The buyers of the portfolios were non-standardized closed-end securitization and investment funds unrelated to the Bank. All risks and rewards from sold portfolios were transferred to the buyers.

34. Custody activities

The Bank acts as a custodian, which involves maintaining or investing assets on behalf of individuals, funds, pension plans and other institutions. Such assets and the related revenues have not been disclosed in the financial statements, because they do not belong to the Bank.

As at 31 December 2017 the Custody Unit maintained 551 securities accounts for customers (537 accounts as at 31 December 2016). The total fair value of financial instruments of Custody Unit's clients amounted to PLN 22 211 975 thousand as at 31 December 2017 (PLN 23 346 396 thousand as at 31 December 2016).

In the reporting period, the Bank kept publicly traded securities, securities in a material form and securities traded abroad. As a part of providing custody services to customers, the Bank cooperated with several brokerage offices. The Bank acts as a depositary for customers and for its own portfolio, and derivative rights and as a representative for an entity that is not a KDPW (National Securities Depository) participant and clearing member.

35. Supplementary information to statement of cash flows

Cash and cash equivalents	31 December 2017	31 December 2016
Cash in hand at the Bank	779 834	667 808
Cash on the current account with the Central Bank	536 156	1 064 061
Cash on Nostro accounts in other banks	12 151	133 797
Cash and cash equivalents presented in the cash flow statement	**1 328 141**	**1 865 666**

Reconciliation of changes in assets and liabilities presented in the statement of cash flows with the changes of the respective assets and liabilities in the statement of financial position is presented in the tables below. The differences are as follows:

1. Changes in the individual assets and liabilities were adjusted with interest disclosed in the position "Interest received/paid".

Other notes (cont.)

2. Changes in the receivables being an equivalent of cash was excluded from the position "Interbank placements, loans and advances to other banks" and were disclosed in the position "Net increase/decrease in cash and cash equivalents".
3. Change in "Derivative financial instruments" does not include the part of derivative valuation that was accounted through equity (valuation of cash-flow hedge derivatives)
4. The following items were excluded from change of "Amounts due to banks and other monetary institutions":

a) interests from financial activity which were disclosed in position "Transfer of interest and dividend from investing and financing activities";

b) inflows and outflows from financial activities from receiving and repayment (including interests) of long term loans from banks and were disclosed in the position "Inflows from subordinated liabilities and long-term bank loans" or "Outflows from repayment of subordinated liabilities and long-term bank loans";

c) unrealized foreign exchange differences from received loans from banks and were disclosed in position "Unrealized foreign exchange differences".

Other notes (cont.)

For the year ended 31 December 2017	changes in statement of financial position	changes in statement of cash flows	difference of which:	1	2	3	4a	4b	4c
Interbank placements, loans and advances to other banks	212 049	68 717	143 332	21 686	121 646	0	0	0	0
Financial assets held for trading	6 816 939	6 732 840	84 099	84 099	0	0	0	0	0
Derivative financial instruments	-1 055 443	-1 192 257	136 814	158 108	0	-21 294	0	0	0
assets	-70 804	-212 453	141 649	162 943	0	-21 294	0	0	0
liabilities	-984 639	-979 804	-4 835	-4 835	0	0	0	0	0
Loans and advances to customers	1 451 216	347 838	1 103 378	1 103 378	0	0	0	0	0
Amounts due to banks and other monetary institutions	-920 778	74 391	-995 169	-97 156	0	0	84 169	-567 444	-414 738
Amounts due to customers	-1 969 551	-1 615 344	-354 207	-354 207	0	0	0	0	0

For the year ended 31 December 2016	changes in statement of financial position	changes in statement of cash flows	difference of which:	1	2	3	4a	4b	4c
Interbank placements, loans and advances to other banks	888 997	916 695	-27 698	19 623	-47 321	0	0	0	0
Financial assets held for trading	4 523 068	4 388 013	135 055	135 055	0	0	0	0	0
Derivative financial instruments	163 229	-12 603	175 832	184 692	0	-8 860	0	0	0
assets	95 665	-85 374	181 039	189 899	0	-8 860	0	0	0
liabilities	67 564	72 771	-5 207	-5 207	0	0	0	0	0
Loans and advances to customers	-178 859	-1 250 459	1 071 600	1 071 600	0	0	0	0	0
Amounts due to banks and other monetary institutions	-895 282	-280 952	-614 330	-116 351	0	0	97 313	-872 046	276 754
Amounts due to customers	-2 392 373	-1 919 655	-472 718	-472 718	0	0	0	0	0

Other notes (cont.)

36. Net income from financial instruments

Net income from loans and advances granted to customers and banks

	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest income, including:	1 143 654	1 122 237
from loans and advances granted to banks	21 530	19 547
from loans and advances granted to customers	1 122 124	1 102 690
Commission income – fees and commissions on lending activity	48 152	54 093
Costs related to intermediation in the sale of credit products	-1 504	-2 271
Total	**1 190 302**	**1 174 059**

Net income on investment securities

	For the year ended 31 December 2017	For the year ended 31 December 2016
Discount income	-17 540	-41 029
Interest income	199 612	169 597
Total	**182 072**	**128 568**

The income described above relates to held to maturity and available for sale investments.

Net result from financial liabilities measured at amortized cost

	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest expenses – total cost of interest on financial assets not measured at the fair value through profit or loss	-453 759	-565 973
Commission expenses – fees and commissions on loans received	-25	-165
Total	**-453 784**	**-566 138**

37. Fair value of assets and liabilities

The main assumptions and methods used by the Bank to measure the fair value of financial instruments are presented below:

- fair value of loans and advances to banks, granted on the interbank market to manage Bank's liquidity, was estimated as the present value of future cash flows discounted with current interbank interest rate for currency in which the loan had been granted,
- fair value of loans to customers was estimated with a model based on present value of future cash flows discounted with current interest rate including current risk margin and adjusted repayment dates resulting from loan agreements. The current margins were selected depending on both currency and major product groups, i.e. fixed term loans, consumer loans and mortgage loans, based on transactions from the period of 12 months. Currency mortgage loans value does not include risk of currency conversion,

Other notes (cont.)

- securities held to maturity (Treasury bonds and NBP money bills) – fair value of securities, for which there is an active market, was determined based on public quotations from the active market (market quotations as at the balance sheet date),
- fair value of amounts due to customers was estimated based on average current market interest rates offered by the Bank with margin charge included. The margins were selected depending on both currency and major product groups,
- fair value of amounts due to banks and other monetary institutions, taken on the interbank market to manage Bank's liquidity, was estimated based on the present value of future cash flows discounted with current interbank interest rate for currency in which the loan or deposit had been taken,
- fair value of debt securities issued was estimated with a model based on market price of the securities and the issuer's rating,
- fair value of "Cash and balances with Central Bank", "Other financial assets" and "Other financial liabilities" is set as their book value due to the short time maturity of these positions.

The methods for determining the fair value of the individual financial assets and liabilities measured at the fair value in the statement of financial position, together with the valuation models assigned to them, can be classified into three levels in the fair value hierarchy:

- *Level I* – financial assets and liabilities measured directly on the basis of prices quoted on an active market or with the use of valuation techniques based solely on market information. The mark-to-market valuation is used mainly with respect to listed securities.
- *Level II* – financial assets and liabilities measured with the use of valuation techniques based on assumptions developed on the basis of market observations or information from an active market. The mark-to-model valuation uses parameterization of models solely on the basis of quotations from an active market for a given type of instrument. Most derivative instruments, including forward transactions in securities, non-liquid treasury securities or securities issued by a central bank, as well as unlisted corporate debt securities and municipal securities, for the valuation of which data is collected from an active market are valued using this type of models.
- *Level III* – financial assets and liabilities measured on the basis of valuation techniques commonly used by market participants, whose assumptions are not based on information obtained from an active market. The mark-to-model valuation uses partial model parameterization based on estimated risk factors. This method is applicable to non-linear derivatives concluded on an inactive market, unlisted corporate debt securities, which do not meet the criteria for being classified as Level II, as well as derivatives whose fair value was adjusted for write-downs in respect of credit risk.

Other notes (cont.)

Methodology of valuation of financial instruments and the governance over it ensure the correctness and independence of valuation process. All newly introduced products are analyzed and approved by competent units within the Bank responsible for valuation, including risk and finance. The responsibility for the measurement lies in risk area.

Risk function covers:

- Verification of correctness of market data used in valuation process,
- Ensuring of correct functioning of implemented valuation models,
- Comparing of the obtained results to prices observed on the market,

in order to ensure the alignment of the valuation process to IFRS EU and other regulations / guidelines in this area.

In case of models deemed as significantly important, additional validation process is performed by another independent unit.

A transfer between categories occurs, when a change in valuation model of an asset or a liability requires a reclassification to a different category. The Bank assesses the valuation models at the end of the reporting period.

Financial assets categorized within Level III of fair value hierarchy were characterized by the following estimated parameters:

- credit spread estimated for the day of issue of a security. The Bank estimated that the credit spread for financial instruments in Bank's portfolio measured between 40 and 500 base points;
- probability of default indicator (PD). As at the day of financial statements the PD indicator for financial instruments categorized within Level III measured between 3,99% and 100%;
- loss given default indicator (LGD) measured between 36.56% and 68.67%.
- parameter of recovery rate (RR) measured between 31.33% and 63.44%.

The effect of estimated parameters on fair value calculation of financial instruments within Level III, which are measured to fair value in the statement of financial position as at 31 December 2017, was negligible. For debt securities being exposed to credit spread risk the estimated exposure vulnerability to credit spread fluctuation of +/- 100 bps amounted to +2 029/- 1 914 PLN thousand impact on financial result from profit and loss account and +5 810/ - 5 642 PLN thousand impact on equity. For derivative financial instruments being subject to credit risk the estimated exposure vulnerability to probability of default fluctuation of +/- 100 bps amounted to +/- PLN 46 thousand change in profit or loss. No impact on equity.

Other notes (cont.)

Changes in financial instruments, which were categorized within Level III of fair value hierarchy, and in Bank's balance sheet measured at fair value, are presented in the table below.

For the year ended 31 December 2017	Financial assets held for trading	Derivative financial instruments - assets	Investment securities available for sale - debt securities	Derivative financial instruments - liabilities
At the beginning of the year	**281 649**	**3 666**	**293 895**	**362**
Increases, including:	42 026	2 253	178 028	982
Purchase	41 523	0	177 541	0
Derivatives opened during year	0	625	0	598
Income from financial instruments, included in:	503	29	487	-205
Net interest income	2	0	2	-195
Net income from financial instruments measured at fair value	501	29	0	-10
Revaluation reserves	0	0	485	0
Reclassification	0	1 599	0	589
Decreases, including:	-238 308	-2 242	-215 870	-23
Settlement/redemption	0	-269	0	-297
Sale	-229 897	0	-214 252	0
Loss from financial instruments, included in:	-8 411	-1 973	-1 618	274
Net interest income	-451	-189	-3	0
Net income from financial instruments measured at fair value	-7 960	-1 784	0	274
Revaluation reserves	0	0	-1 615	0
At the end of the year	**85 367**	**3 677**	**256 053**	**1 321**
Unrealized result on financial instruments held in the portfolio at the end of the year, included in statement of comprehensive income in:	**-7 161**	**11**	**130**	**959**
Net interest income	297	0	1 260	0
Net income from financial instruments measured at fair value	-7 458	11	0	959
Revaluation reserves	0	0	-1 130	0

Other notes (cont.)

For the year ended 31 December 2016	Financial assets held for trading	Derivative financial instruments - assets	Investment securities available for sale - debt securities	Derivative financial instruments - liabilities
At the beginning of the year	**91 907**	**9 828**	**319 970**	**7**
Increases, including:	275 813	3 645	84 013	359
Purchase	273 166	0	61 379	0
Derivatives opened during the year	0	746	0	290
Income from financial instruments, included in:	2 647	0	22 634	0
Net interest income	2	0	47	0
Net income from financial instruments measured at fair value	2 645	0	0	0
Revaluation reserves	0	0	22 587	0
Reclassification	0	2 899	0	69
Decreases, including:	-86 071	-9 807	-110 088	-4
Settlement/redemption	0	-542	0	-7
Sale	-77 076	0	-73 484	0
Loss from financial instruments, included in:	-8 995	-108	-36 604	3
Net interest income	-130	0	-113	0
Net income from financial instruments measured at fair value	-8 865	-108	0	3
Revaluation reserves	0	0	-36 491	0
Reclassification	0	-9 157	0	0
At the end of the year	**281 649**	**3 666**	**293 895**	**362**
Unrealized result on financial instruments held in the portfolio at the end of the year, included in statement of comprehensive income in:	**-5 492**	**-6 162**	**-11 634**	**356**
Net interest income	728	0	2 270	0
Net income from financial instruments measured at fair value	-6 220	-6 162	0	356
Revaluation reserves	0	0	-13 904	0

Level III comprises fair value of capital shares in Visa Europe which were classified as securities available for sale.

Reclassification to level III of fair value relates to derivatives, for which impairment trigger was identified and for which fair value is calculated based on discounted future cash flows from collateral and repayment for each derivative.

The table below presents fair values and book values of assets and liabilities split between levels of fair value hierarchy.

Other notes (cont.)

Position description	31 December 2017					31 December 2016				
	Book value	Fair value	Level I	Level II	Level III	Book value	Fair value	Level I	Level II	Level III
Financial Assets										
Cash and balances with Central Bank	1 315 990	1 315 990	0	0	1 315 990	1 731 869	1 731 869	0	0	1 731 869
Amounts due from banks	103 203	103 281	0	0	103 281	315 252	315 175	0	0	315 175
Financial assets held for trading	1 230 403	1 230 403	1 145 036	0	85 367	8 047 342	8 047 342	371 779	7 393 915	281 649
Derivative financial instruments:	537 524	537 524	0	533 847	3 677	466 720	466 720	0	463 054	3 666
Derivative financial instruments held for trading	436 382	436 382	0	432 705	3 677	466 720	466 720	0	463 054	3 666
Derivative financial instruments in cash flow hedges	101 142	101 142	0	101 142	0	0	0	0	0	0
Investment securities:	12 648 386	12 659 121	7 795 104	4 558 752	305 265	7 947 954	7 907 898	7 568 463	0	339 435
Investment securities held to maturity	3 040 623	3 051 358	3 051 358	0	0	3 475 082	3 435 026	3 435 026	0	0
Investment securities available for sale, including:	9 607 763	9 607 763	4 743 746	4 558 752	305 265	4 472 872	4 472 872	4 133 437	0	339 435
Equity interests	49 212	49 212	0	0	49 212	45 540	45 540	0	0	45 540
Debt securities	9 558 551	9 558 551	4 743 746	4 558 752	256 053	4 427 332	4 427 332	4 133 437	0	293 895
Loans and advances to customers, including:	32 416 789	29 930 220	0	0	29 930 220	33 868 005	31 444 830	0	0	31 444 830
Loans and advances granted to individuals	17 516 114	15 160 956	0	0	15 160 956	19 631 840	17 322 307	0	0	17 322 307
Loans and advances granted to micro customers	2 402 102	2 169 006	0	0	2 169 006	2 491 608	2 364 899	0	0	2 364 899
Loans and advances granted to large enterprises	11 000 995	11 127 771	0	0	11 127 771	10 345 724	10 358 775	0	0	10 358 775
Loans and advances granted to small and medium enterprises	1 392 595	1 367 622	0	0	1 367 622	1 311 710	1 311 722	0	0	1 311 722
Loans and advances granted to public sector entities	104 983	104 865	0	0	104 865	87 123	87 127	0	0	87 127
Other financial assets	201 942	201 942	0	0	201 942	177 596	177 596	0	0	177 596
Total financial assets	**48 454 237**	**45 978 481**	**8 940 140**	**5 092 599**	**31 945 742**	**52 554 738**	**50 091 430**	**7 940 242**	**7 856 969**	**34 294 220**

Other notes (cont.)

Position description	31 December 2017					31 December 2016				
	Book value	Fair value	Level I	Level II	Level III	Book value	Fair value	Level I	Level II	Level III
Financial liabilities										
Amounts due to banks and other monetary institutions	5 779 865	5 737 342	0	0	5 737 342	7 433 406	7 325 622	0	0	7 325 622
Derivative financial instruments:	561 536	561 536	0	560 215	1 321	1 546 175	1 546 175	0	1 545 812	362
Derivative financial instruments held for trading	399 306	399 306	0	397 985	1 321	347 362	347 362	0	346 999	362
Derivative financial instruments in cash flow hedges	150 304	150 304	0	150 304	0	1 180 821	1 180 821	0	1 180 821	0
Derivative financial instruments in fair value hedges	11 926	11 926	0	11 926	0	17 992	17 992	0	17 992	0
Amounts due to customers, including:	34 392 256	34 383 886	0	0	34 383 886	36 361 807	36 401 866	0	0	36 401 866
Amounts due to individuals	17 353 150	17 353 544	0	0	17 353 544	18 218 007	18 239 621	0	0	18 239 621
Amounts due to micro customers	2 740 881	2 740 891	0	0	2 740 891	2 565 414	2 566 605	0	0	2 566 605
Amounts due to large enterprises	11 279 103	11 270 379	0	0	11 270 379	12 358 879	12 373 819	0	0	12 373 819
Amounts due to small and medium enterprises	3 019 122	3 019 072	0	0	3 019 072	3 219 506	3 221 820	0	0	3 221 820
Amounts due to the public sector	0	0	0	0	0	1	1	0	0	1
Subordinated liabilities	1 064 859	884 153	0	0	884 153	332 096	256 375	0	0	256 375
Liabilities from debt securities issued	0	0	0	0	0	501 830	501 843	0	0	501 843
Other financial liabilities	425 962	425 962	0	0	425 962	417 288	417 288	0	0	417 288
Total financial liabilities	**42 224 478**	**41 992 878**	**0**	**560 215**	**41 432 663**	**46 592 602**	**46 449 168**	**0**	**1 545 812**	**44 903 356**

Other notes (cont.)

38. Offsetting of financial assets and liabilities

As at 31 December 2017 and 31 December 2016 offsetting criteria were not fulfilled, therefore there were no cases of financial assets and liabilities offset on the balance sheet dates.

However, in order to minimalize credit risk losses, the Bank concludes master netting arrangements or similar agreements. The clauses of these agreements provide right for net settlement only in case of default, insolvency, bankruptcy or when a counterparty in unable to meet its obligations.

Master netting arrangements concluded by the Bank contain:

- ISDA agreements or other based on a local law
- repo and reverse repo agreements.

Disclosures presented in the tables below refer to financial assets and liabilities subject to master netting arrangements or similar and may be potentially compensated in the statement of financial position. Additionally, received and pledged cash collaterals for derivative and repo/reverse repo transactions were shown. They were established according to standard sector conditions. Collaterals in the form of cash deposits result from Credit Support Annex (CSA) or similar agreements, annexed to ISDA framework agreements or other based on local law.

31 December 2017	Gross amount of recognised financial assets	Net amount of financial assets presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collateral received	
FINANCIAL ASSETS					
Derivative financial instruments	537 524	537 524	394 626	3 221	211 011
Total	**537 524**	**537 524**	**394 626**	**3 221**	**211 011**

31 December 2017	Gross amount of financial recognised liabilities	Net amount of financial liabilities presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collaterals pledged	
FINANCIAL LIABILITIES					
Derivative financial instruments	561 536	561 536	394 669	86 599	170 329
Total	**561 536**	**561 536**	**394 669**	**86 599**	**170 329**

Other notes (cont.)

31 December 2016	Gross amount of recognised financial assets	Net amount of financial assets presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collateral received	
FINANCIAL ASSETS					
Derivative financial instruments	466 720	466 720	281 151	32 251	175 177
Total	**466 720**	**466 720**	**281 151**	**32 251**	**175 177**

31 December 2016	Gross amount of financial recognised liabilities	Net amount of financial liabilities presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collaterals pledged	
FINANCIAL LIABILITIES					
Derivative financial instruments	1 546 175	1 546 175	1 467 053	144 469	42 587
Total	**1 546 175**	**1 546 175**	**1 467 053**	**144 469**	**42 587**

*based on calculation per contract

Reconciliation of carrying amounts of financial assets and liabilities subject to master netting arrangements or similar agreements to the individual line item amounts presented in the statement of financial position:

31 December 2017	Net carrying amount	Financial statement positions of financial condition	Carrying amount of financial statement position	Carrying amount of non disclosure items in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	537 524	Derivative financial instruments assets	537 524	0
FINANCIAL LIABILITIES				
Derivative financial instruments	561 536	Derivative financial instruments liabilities	561 536	0

31 December 2016	Net carrying amount	Financial statement positions of financial condition	Carrying amount of financial statement position	Carrying amount of non disclosure items in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	466 720	Derivative financial instruments assets	466 720	0
FINANCIAL LIABILITIES				
Derivative financial instruments	1 546 175	Derivative financial instruments liabilities	1 546 175	0

Other notes (cont.)

39. Transactions with related parties

The Bank identifies the following related entities:

- Parent entities:
  - ultimate parent entity – Raiffeisen Regional Banks (being parties of RBI Consortium Agreement).
  - parent entity – Raiffeisen Bank International AG (RBI).
- The Bank's consolidated subsidiaries:

  – Raiffeisen-Leasing Polska S.A., Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o., Raiffeisen-Leasing Real Estate Sp z o.o., - (subsidiaries until 31 March 2016)

  - Raiffeisen Financial Services Polska Sp. z o.o., Raiffeisen Solutions Sp z o.o, Raiffeisen Investment Polska Sp. z o.o., Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.
- Not consolidated subsidiary – Leasing Poland Sp. z o.o.,
- Members of the Bank's key personnel,
- Other entities - other related entities – entities controlled by the parent entities and subsidiaries, as well as entities having significant influence on Raiffeisen Bank International AG
- Special purpose entity] ROOF Poland Leasing 2014 DAC (subsidiary until 31 March 2016 year).

As a part of ordinary operations, a number of transactions were concluded with members of the Bank's key personnel. The Bank's key personnel include members of the Bank's Management Board and members of the Bank's Supervisory Board, listed in note 1 to the financial statements. Transactions with members of the Bank's key personnel can comprise mainly loans, deposits and foreign currency transactions. In 2017 and 2016 no transactions were concluded with members of the key personnel of the Bank's Parent Entities or with persons related to the members of the Bank's key personnel or the Parent Entities' key personnel.

Raiffeisen POLBANK

Other notes (cont.)

Statement of financial position items	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entity key personnel		Other related entities	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Amounts due from banks	38 141	146 551	0	0	0	0	2 587	13 343
Derivative financial instruments (assets)	391 622	277 752	6	11	0	0	191	506
Loans and advances to customers	0	0	2 990	2 888	141	1 749	0	0
Other assets	42	95	56	0	0	0	867	1 325
Amounts due to banks and other monetary institutions	4 450 527	5 368 872	0	0	0	0	948 203	1 764 593
Derivative financial instruments (liabilities)	446 847	1 477 686	4	9	0	0	1 605	2 009
Amounts due to clients	0	0	50 894	32 471	4 690	5 430	12	15 848
Subordinated liabilities	1 064 859	332 096	0	0	0	0	0	0
Other liabilities	25 478	26 383	132	193	0	0	137	581
Provisions for liabilities	2 551	2 407	0	0	10 479	8 400	0	1

Statement of profit and loss items	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entity key personnel		Other related entities	
	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest income	164 329	188 466	118	2 469	24	50	158	10 367
Interest expenses	-74 235	-79 627	-319	-3 555	-55	-52	-18 269	-23 495
Commission income	1 415	1 490	118	97	6	8	3 485	5 569
Commission expenses	-500	-1 181	0	-12	-1	2	-893	-2 673
Net income from financial instruments measured at fair value and net foreign exchange result	1 169 306	-20 722	0	25	2	3	-1 375	-1 599
Result on sale of shares in subsidiary	0	202 313	0	0	0	0	0	0
Income from dividend	0	0	8 764	0	0	0	0	0
General administrative expenses	-47 877	-23 450	-2 935	-6 180	-11 735	-12 489	-2 293	-6 354
Other operating income	544	467	773	801	0	0	2 966	13 006
Other operating expenses	0	0	0	0	0	0	0	-4

Other notes (cont.)

Off-balance sheet commitments	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entity key personnel		Other related entities	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Guarantees and letters of credit	101 317	109 315	0	0	0	0	43 423	38 293
Financial liabilities granted	0	0	6 010	6 112	0	0	0	0
Guarantees received	76 492	77 483	0	0	0	0	22 462	13 422

Other notes (cont.)

Transactions with the Bank's Parent Entity comprised transactions aimed at providing financing for the Bank's operations (mainly interbank deposits, loans received and subordinated loans) and closing of open positions resulting from derivative transactions. As a result, interest income and expenses, net income from financial instruments and general administrative expenses were recognized in the statement of profit or loss.

As guarantees and letters of credits are presented Bank's guarantee liabilities issued on other Group banks request, as guarantees received are presented repayment guarantees in relation to loans taken from the Bank or re-guarantees received from other banks and relating to guarantees issued by the Bank.

As at the date of financial statements preparation, variable remuneration for the Management Board of the Bank for the year 2017 was not paid or awarded. Provision expenses for this purpose are presented in line provisions for employee bonuses. Before the Supervisory Board's decision it is not possible to accurately present variable remuneration for the Bank Management Board, that is why the amount presented in the above table in line Provisions for liabilities and charges to Members of the key personnel is only an estimation of the provision expense for the Management Board, according to terms defined in managerial contracts between Bank and its Management Board in force for the year 2017.

The costs of settlements with members of the Bank's key personnel for the financial year comprise remuneration:

Remuneration of members of the Bank's key personnel	For the year ended 31 December 2017	For the year ended 31 December 2016
Short-term remuneration of the Management Board (salary)	9 317	9 893
Short-term remuneration of the Supervisory Board	2 418	2 596
Variable remuneration of the Management Board paid in the current reporting year *	3 383	2 643
Total	**15 118**	**15 132**

* variable remuneration for the period before current reporting period

Members of the Management Board signed a non-compete clause due upon termination of their contracts. Non-compete clause duration ranges maximum to 12 months, counting from the end of the notice period. Throughout that period remuneration equal to the last basic salary before the termination of the contract is paid. The Bank may waive the non-compete clause within 30 days of the termination of the contract.

Other notes (cont.)

40. Events after the reporting date

Change in the Bank's Supervisory Board

On 2 January 2018 Władysław Gołębiewski resigned from his position as a Member of Bank's Supervisory Board.

Changes in the Bank's Management Board

On 27 February 2018 Łukasz Januszewski resigned from his position as Member of Bank's Management Board, due to the fact that he was appointed by the Supervisory Board of Raiffeisen Bank International as a Member of the Management Board of RBI.

Liquidation of Raiffeisen Investment Polska Sp. z o.o.

On 15 January 2018 the Extraordinary Shareholders Meeting of Raiffeisen Investment Polska Sp. z o.o. decided to put the Company in the liquidation status. On 22 January 2018 the Company filed a motion to the National Court Registry to register start of liquidation. As at the date of signing these financial statements registration of this motion in the National Court Registry was not done.

Sale or initial public offering (IPO) of the shares in the Parent Entity

In July 2017, RBI postponed the IPO of the Bank. The postponement was due to an insufficient level of interest in the offer on terms that met the parameters of RBI's commitment to the Polish regulatory authority to float shares in the Bank on the Warsaw Stock Exchange. In the release dated 1 August 2017 PFSA informed that RBI should float shares in the Bank on Warsaw Stock Exchange assuring their liquidity on the level of 15% or higher no later than till 15 May 2018.

RBI is currently considering the alternative option of a sale of the core banking business of the Bank (excluding FX portfolio) to an investor. RBI's commitment to the Polish regulator to float shares in the Bank on the Warsaw Stock Exchange can be satisfied either by selling at least 15 per cent of the Bank's shares to free float shareholders through an IPO, or through a sale of the Bank's core banking operations to an investor. Given that the IFRS 5 criteria are not met, the core banking business has not been classified as an asset held for sale.

No other events having significant influence on the Raiffeisen Bank Polska S.A. financial statements have occurred after the reporting date.

Risk management

41. The nature and scope of risk associated with financial instruments

In its activity, the Bank follows an active approach to the risk management, involving its identification, measurement, monitoring and mitigating. The Bank follows the principle that an effective risk management and control system is based on three well-adjusted elements:

- the organizational structure, comprising a segregation of duties and competencies, including a clear indication of functions performed by specific organizational units in the risk management and control process,
- the methods for monitoring, measurement and estimation of risk, which are necessary for the Bank to correctly identify the risks undertaken,
- actions focused on using modern techniques for hedging and transferring risks in order to adjust the type and profile of the risks undertaken by the Bank to the risk appetite described in the adopted strategic plans.

Organizational structure

Supervisory Board, Audit Committee and Risk Committee

Under the MDF Resolution, in the scope of risk management the Bank's Supervisory Board supervises the introduction of a risk management system, internal control system, internal capital estimation and reviews of strategies and procedures for estimating internal capital and ensuring own funds at a level not lower the estimated internal capital of the bank and assess their adequacy and effectiveness.

The Audit Committee is a body established in order to ensure supervision of the Supervisory Board in relation to internal control system. Audit Committee is responsible primarily for:

- monitoring the financial reporting process,
- monitoring the effectiveness of the internal control system, including giving the Supervisory Board an opinion on the adequacy and effectiveness of the audit function, the compliance unit and the internal audit unit,
- and based on this monitoring process - making recommendations to the RBPL Supervisory Board as far as those areas are concerned.

The Risk Committee of the Supervisory Board in the risk management framework is responsible for:

- opinions on the overall current and future readiness of the Bank to take risks,
- issuing opinions on the risk strategy prepared by the Management Board and on the information on the implementation of this strategy,

Risk management (cont.)

- issuing opinions on the Recovery Plan, which is the set of business objectives, risk appetite and actions aiming to improve the financial position, liquidity and capital position of the bank,
- supporting the Supervisory Board in overseeing the implementation of a risk strategy by the Bank's senior management,
- verifying whether the prices of liabilities and assets offered to the customers fully reflect the Bank's business model and its strategy in terms of risk, and if the prices are not reflecting in an appropriate way risks in accordance with this model and this strategy, Risk Committee presents to the Management Board proposals to ensure the adequacy of the assets and liabilities prices,
- opinions on draft rules of prudential and stable management of the Bank.

Management Board

According the MDF Resolution, the RBPL Management Board The Bank's Management Board designs, implements and ensures the functioning of the risk management system, internal control system, internal capital estimation, maintaining own funds at a level not lower than the estimated internal capital and reviews of internal capital estimation strategies and procedures.

System of the risk committees

- Credit Portfolio Steering Committee (CSPC)

CSPC is responsible for support of management board activities in the domain of supervision on the process of credit portfolio risk management by the development and implementation respective policies, strategies and guidance aimed to achieve the expected risk profile and maintain the risk level on the acceptable level. The main duties of CPSC are:

- development and implementation of the credit risk management strategies and policies,
- monitoring of the risk of credit portfolio,
- initiation of the changes in the credit acceptance process as well as cooperation with external counterparties aiming to transfer the credit risk,
- ensuring the compliance with the legal acts, principles and requirements of the external supervisory authorities.

- Credit Committees (CCs)

Credit Committees are responsible for conducting the credit risk acceptance process on individual customer and exposure basis taking into consideration the assessment of transactions profitability and risk.

Risk management (cont.)

- Model Validation Committee (MVC)

Model Validation Committee is responsible for support of the management board activities in the domain of the model risk management by development and implementation of the respective strategies and policies allowing to identify, measure and mitigate the risk of the models used for the purpose of risk measurement in the area of risks types which are identified as material. The main duties of MVC are:

- defines the structure of the model risk management in terms of coherence with the bank's risk management system,
- controls and accepts the risk level of the models against the accepted tolerance level for the models,
- acceptance of the model risk policy as well as associated subordinate documents used for model risk management,
- approves the removal and introduction of models and changes in models.

- Asset and Liabilities Management Committee (ALCO)

ALCO supports the Management Board activities in the area of the asset and liability management in order to achieve the target market, liquidity and capital risk profile and expected return on those risks. The main duties of ALCO are:

- the asset and liabilities management in accordance to law, standards and requirements of external supervisory authorities,
- management of the market, liquidity and capital risk in order to achieve the expected relation between the risk and return,
- monitoring market, capital and liquidity risk limit utilization and deciding on remedial actions in case of substantial limit excesses,
- deciding on the expected parameters and composition of the RBPL investment portfolio.

- Operational risk steering committee (ORSC)

ORSC supports the Management Board in the area of operational risk management. The main duties of ORSC are:

- supervision of the process of operational risk management, including the implementation and effective use of operational risk management policies and tools,
- setting the direction of the operational risk management strategy,
- reviewing and evaluating the operational risk profile, monitoring potential risk exposures, issuing recommendations on risk actions,

Risk management (cont.)

- review of existing operational events, risk assessments, scenarios and early warning indicators, and risk mitigation plans,
- supervision of business continuity planning process.

Risk Management organization

The bank's risk management system is organized at three independent levels, which is used to define the roles and responsibilities to achieve effective supervision and organization of risk management in the bank:

- First level (first line of defence) - the first level consists of risk management in the bank's operating activity.
- Second level (second line of defence) - the second level consists of at least the risk management of specially designated employees, independent of first-level risk management, and activity of compliance unit. In RBPL the second line of defense is located predominantly in Finance, Risk Management, Compliance, Legal, HR and IT Security area.
- Third level((third line of defence) - the third level consists of the activity of an internal audit unit.

Capital management process

The main objective of capital management process is to maintain stable capital adequacy in the long term by ensuring a proper process of identification, measurement, monitoring, mitigation and capital risk reporting.

Regulatory requirements in respect of capital adequacy is total capital ratio defined in article 92 par. 1 point c of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013.

Moreover the Bank is obliged to maintain an additional requirements in respect of own funds:

- based on article 138 par. 1 point 2a The Banking Law Act:

1) since October 2015 the Bank is obliged by Financial Supervision Authority to maintain an additional capital adequacy equal to 2.08 p.p to cover risk resulting from portfolio of currency mortgage loans; in October 2016 as a result of review of the process the Group received a decision updating the amount of requirement - capital requirement amounted to 2.56 p.p; in November 2017 as a result of review of the process the Bank received a decision updating the amount of requirement - currently capital requirement amounts to 2.30 p.p;

- based on article 19 in relation to article 84 the act on macro-prudential supervision over the financial system and crisis management in financial system:

2) since January 2016 the Bank is obliged to maintain additional equity amount of safety buffer amounted to 1.25 p.p:

Risk management (cont.)

- based on article 39 par.1 in relation to article 38 par.1 and 2 the act on macro-prudential supervision over the financial system and crisis management in financial system:

3) The Bank in the year 2016 was identified by Financial Supervision Authority as other institution of system relevance and as a result since August 2016 the Bank was imposed with a buffer amounted to 0.25 p.p.; in December 2017 as a result of buffer's rate of another institution of systemic significance review, the Polish Financial Supervision Authority repealed the 2016 decision (currently the Bank is not identified as another institution of systemic significance).

Therefore the minimal level of total capital ratio should not be lower than:

	Tier 1	TCR
The minimum for the capital ratios	6,00%	8,00%
Cover risk resulting from portfolio of currency mortgage loans	1,73%	2,30%
Supervisory recommendation relating to additional buffer	3,00%	4,00%
The safety buffer	1,25%	1,25%
The total capital adequency (%)	**11,98%**	**15,55%**

The amounts of regulatory capital and capital requirement determined for the purposes of calculating the total capital ratio were as follows:

	Method of calculating the requirement	31 December 2017	31 December 2016
Credit and counterparty risk	Standard	3 046 613	2 613 173
Market risk	Standard	29 495	44 066
Operational risk	Standard	258 855	271 001
Regulatory capital		**3 334 963**	**2 928 240**
Own funds		**7 191 917**	**6 111 419**
Total capital ratio (%)		**17,25**	**16,70**

The main source of own funds to cover the capital requirements is Tier I capital (core capital), which is supplemented with subordinated liabilities (Tier II capital).

On 24 October 24 2017, the Bank filed an application to the Polish Financial Supervision Authority for approval to qualify as Tier II instruments, cash in the amount of CHF 240 million, in accordance with the terms of the subordinated debt agreement dated on 10 October 2017 between the Bank and Raiffeisen Bank International AG in Vienna. On 28 December 2017 the Polish Financial Supervision Authority agreed to qualify as Tier II instruments cash in the amount of CHF 240 million, in accordance with the terms of the subordinated debt agreement.

Tier I capital amounted to PLN 6 127 244 thousand at the end of 2017 (PLN 5 875 197 thousand as at the end of 2016) and Tier II capital amounted to PLN 1 064 673 (PLN 236 221 thousand as at the end of 2016). As at 31 December 2017, Tier I capital ratio was at the level of 14.70%, while the total capital ratio

Risk management (cont.)

(TCR) was 17.25%, which means that the Bank meets both regulatory requirements and requirements arising from supervisory recommendations.

The important factor affecting change of the capital ratios in the year 2017 was change in assignment of credit conversion factor (CCF). At the end of March 2017 due to recommendations received from Polish Financial Supervision Authority after the inspection, the Bank changed CCF 0% to factors of 20% and 50% according to requirements of Appendix I point 4 of the Regulation No 575/2013 of the European Parliament and of the Council. Starting from 30 June 2017, after finalization by the Bank of the actions addressing PFSA's recommendations presented after the inspection, the Bank re-assigned 0% CCF to off balance exposures.

Change of currently used by the Bank CCF of 0% to higher CCFs required by CRR Regulation, according to the Bank's estimations, would result in the exposure to risk of PLN 1 939.7 million and would lower total capital ratio of the Bank to 16.49%, and CET1 and Tier 1 rations to 14.04% as at the end of the year 2017. After introduction of CCF changes the Bank would still met both regulatory and recommended minimal levels of capital ratios.

Higher risk requirements for exposures secured with mortgage on real estate

From 1 December 2017 the Bank applies the Resolution of Minister of Economic Development and Finance dated 25 May 2017 relating to higher risk requirements for exposures secured with mortgage on real estate and charges exposures secured with mortgage on housing real estate, for which amount of capital and interest installment depends on changes in the currency exchange rate or currencies other than the currency in which debtor receives income, are charged with the risk requirement of 150%. The Bank also applies the rules to charge the risk requirement of 100% to exposures secured with mortgage on office or other commercial real estate, located in Poland.

Internal capital calculation

Internal capital is defined as capital with a purpose of covering unexpected losses the Bank incurs or may incur as a result of realization of risks that occur in Bank's operations or in its economic environment. The Bank carries out the process of internal capital assessment and reviews the process itself in compliance with Polish FSA (KNF) Resolution No. 258/2011 dated 6 March 2017 on Detailed Principles of Functioning of the Risk Management System (...) and Detailed Conditions of Internal Capital Assessment by Banks and of Reviewing the Process of Internal Capital.

The results of the process are reported to relevant Bank committees. The methodology for internal capital assessment is reviewed annually and updated both in terms of identification of risk types and the applied methodology. Both the Management Board and Supervisory Board of the Bank are informed about the results of the review.

Risk management (cont.)

Internal capital is calculated based on the main types of risk the Bank is exposed to, namely: credit risk, operational risk, liquidity risk, interest rate risk and currency risk (risk measured quantitatively). Aggregation of the results of the individual models is based on the Gaussian copula. Economic capital is calculated as a difference between value at risk (assuming a confidence level of 99.95% and a period of one year) and the reserves held for risks included in the calculation.

For the remaining identified types of risk, which are considered material, the Bank periodically evaluates the risk levels and acts upon results to control the risk. Additionally, based on an internal model for risks difficult to measure, the Bank calculates a capital buffer added to the total of internal capital.

42. Credit risk

Credit risk is the possibility of incurring a loss due to a debtor not meeting the terms of the agreement with the Bank.

The aim of credit risk management is to increase the safety of the Bank's lending activity by ensuring the highest quality of credit risk assessments and effectiveness of the decision-making process, as well as an effective credit exposure monitoring with regard to individual customers and the Bank's loan portfolio.

With respect to individual customers, the Bank monitors their economic and financial situation, loan history, collateral provided and capital and organizational relations. The procedures implemented and modified in this area are aimed at identifying exposures and taking actions that are adequate to changes in the risk levels.

Credit risk monitoring on the portfolio level includes preparing regular, periodical analysis of the Bank's loan portfolio, which ensures identification of adverse trends and concentrations, as well as performing ad hoc portfolio reviews, mainly in connection with changes in the external environment.

Credit risk monitoring procedures applied by the Bank also include the principles for monitoring of collaterals and their periodical reviews. The scope and frequency of these reviews depends on the type of collateral and covers: collateral's value and its changes, the correctness, completeness and validity of documents associated with the collateral as well as insurance documents for collaterals (a review of insurance policies, payment schemes, validity dates).

The Bank's exposure to credit risk arises mainly from its lending activity and, to a lesser extent, from the sales and operations on the trading portfolio, derivative instruments and participation in payment transactions and settlements of securities on Bank's own account and its customers behalf.

The Bank applies internal procedures that allow determining the level of credit risk associated with granting a given customer a loan or providing other services bearing credit risk, as well as the level of risk

Risk management (cont.)

acceptance. Implementation and modification of procedures in this area aims at both identifying and acting accordingly to the changing risk.

The Bank supports a clear and transparent system of lending competences based on the multi-level system of credit committees with various, clearly defined competences. Each and every person involved in the decision-making process is responsible for the risk and return on transactions which are subject to their decisions.

In order to ensure independence of the credit risk assessments and quality of Bank's loan portfolio, a clear division of responsibilities between business units and risk units has been introduced.

Business units are responsible for the management of individual credit exposures.
Risk management units are responsible for monitoring of risk of Bank's entire loan portfolio and, as part of their duties, for performing, among others, the following functions:

- implementation of lending strategies, policies and procedures;
- ensuring proper application of credit process standards approved by the Bank;
- monitoring of credit risk provisions levels,
- managing the portfolio of non-performing loans.

Before concluding a loan agreement, the Bank makes an assessment of the customer's creditworthiness. Assessment of a customer is supported by the rating and scoring systems used by the Bank. These systems constitute an important element of credit risk management within the Bank.

In case of corporate customers, a customer's creditworthiness is assessed based on a rating system to classify the customer into one of the rating categories. The rating category is determined on the basis of an analysis of quantitative factors (annual and interim financial statements), qualitative factors, and additional warning signals. The rating category affects determination of standard risk costs and is an important parameter in Bank's portfolio management.

The Bank also estimates the risks associated with the purpose of the loan and customer's ability to service debt, in particular based on financial surpluses generated by the customer. The Bank grants loans to customers characterized by high creditworthiness.

Retail customers' creditworthiness is assessed with the use of scoring cards. The Bank grants loans to customers characterized by high creditworthiness. However, in order to reduce potential losses resulting from debt not being serviced, the Bank strives to conclude collateral agreements, in particular, with regard to long-term loans.

Actions undertaken in respect of collateral, including establishing collateral that will ensure the highest possible level of recovery in the event of debt collection, are meant to properly secure Bank's interests.

Risk management (cont.)

Therefore, collateral established for loans serviced on a timely basis and overdue loans or impaired and not impaired loans, maintains the same quality. The policies regarding legal collateral are part of the internal regulations of the Bank.

The Bank accepts the following collaterals in its credit process:

- residential real estate mortgage,
- commercial real estate mortgage,
- registered pledge,
- pledged deposit,
- cash blocked on a bank account,
- bank guarantee,
- BGK guarantee,
- sovereign or municipal guarantee,
- corporate guarantee,
- suretyship,
- transfer of ownership as a security,
- assignment of receivables,
- bill of exchange,
- loan insurance,
- authorization to manage a bank account.

Discounted value of recoveries from collateral for the portfolio of loans and advances in which impairment allowance is recognized based on an individual analysis of future cash flows relating to repayment and recovery from collaterals amounted to PLN 608 437 thousand (2016: PLN 835 941 thousand) .

The Bank maintains close control over net open positions of derivative instruments, i.e. the differences between the call and put contracts, in terms of both their amount and maturity. At any time, the amount subject to credit risk is limited to the present fair value of instruments with positive fair value (i.e. assets), which in case of derivative instruments constitutes a small fraction of contract's value or the nominal values used to express the volume of existing instruments.

Exposure to credit risk on derivative instruments is managed as a part of the general credit limits for customers, together with the potential exposure to risk resulting from market changes.

Valuation techniques used by the Bank for derivative financial instruments are usually based on maximum use of input data originating from active markets, including: interest rates, foreign exchange rates and implicit volatilities. In the absence of appropriate input from an active market, the Bank usually utilizes its

Risk management (cont.)

own estimations of parameters necessary for pricing purposes based on Bank's best knowledge and experience.

The main purpose of contingent liabilities is to ensure availability of funds as they are required. Those liabilities are related to the unused portion of loans, guarantees and letters of credit granted.

With respect to the credit risk on granted loan commitments, the Bank is exposed to potential losses equal to the total amount of granted loan commitments. The likely loss is lower however than the entire amount of unused loan commitments based on the fact that the majority of those commitments depends on borrowers meeting certain credit criteria. The Bank monitors periods of validity of its granted loan commitments, because credit risk is generally higher the longer the period.

Guarantees and letters of credit, which constitute Bank's irrevocable commitments to pay client's third party liabilities in an event that the client is unable to pay, are subject to the same credit risk as loans.

Risk management (cont.)

As at 31 December 2017	Financial assets presented in the statement of financial position							
Classes of maximum exposure with instrument types assigned to them	Amounts due form banks	Cash and balances with the Central Bank	Trading assets	Derivatives	Investment securities	Loans and advances	Other	**Total**
Cash and cash equivalents	**0**	**779 834**	**0**	**0**	**0**	**0**	**0**	**779 834**
Exposures to governments and central banks	**0**	**536 156**	**795 513**	**0**	**12 191 003**	**0**	**0**	**13 522 672**
Balances with the Central Bank	0	536 156	0	0	0	0	0	536 156
Treasury bonds and bills	0	0	795 513	0	7 632 251	0	0	8 427 764
NBP bills	0	0	0	0	4 558 752	0	0	4 558 752
Exposures to banks	**103 203**	**0**	**367 671**	**403 247**	**180 221**	**0**	**0**	**1 054 341**
Cash on current and term accounts with other banks	55 460	0	0	0	0	0	0	55 460
Loans and advances granted to other banks	47 743	0	0	0	0	0	0	47 743
Derivative financial instruments	0	0	0	403 247	0	0	0	403 247
Other financial institution bonds	0	0	349 523	0	152 118	0	0	501 641
Corporate bonds	0	0	2 027	0	28102,6814	0	0	30 130
Mortgage backed securities	0	0	16 120	0	0	0	0	16 120
Exposures to customers	**0**	**0**	**67 219**	**134 277**	**277 162**	**32 416 789**	**0**	**32 895 447**
Loans and advances granted to individuals	0	0	0	0	0	17 516 114	0	17 516 114
Loans and advances granted to micro customers	0	0	0	0	0	2 402 102	0	2 402 102
Loans and advances granted to large enterprises	0	0	0	0	0	11 000 995	0	11 000 995
enterprises	0	0	0	0	0	1 392 595	0	1 392 595
Loans and advances granted to public sector entities	0	0	0	0	0	104 983	0	104 983
Equity investments	0	0	0	0	49 212	0	0	49 212
Derivative financial instruments	0	0	0	134 277	0	0	0	134 277
Corporate bonds	0	0	67 219	0	227 950	0	0	295 169
Other financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**201 942**	**201 942**
Total	**103 203**	**1 315 990**	**1 230 403**	**537 524**	**12 648 386**	**32 416 789**	**201 942**	**48 454 237**

Risk management (cont.)

As at 31 December 2016	Financial assets presented in the statement of financial position							
Classes of maximum exposure with instrument types assigned to them	Amounts due form banks	Cash and balances with the Central Bank	Trading assets	Derivatives	Investment securities	Loans and advances	Other	**Total**
Cash and cash equivalents	0	**667 808**	0	0	0	0	0	**667 808**
Exposures to governments and central banks	**0**	**1 064 061**	**7 765 694**	**317**	**7 608 519**	**0**	**0**	**16 438 591**
Balances with the Central Bank	0	1 064 061	0	0	0	0	0	1 064 061
Treasury bonds and bills	0	0	371 779	0	7 608 519	0	0	7 980 298
NBP bills	0	0	7 393 915	0	0	0	0	7 393 915
Derivative financial instruments	0	0	0	317	0	0	0	317
Exposures to banks	**315 252**	**0**	**8 831**	**283 197**	**0**	**0**	**0**	**607 280**
Cash on current and term accounts with other banks	272 923	0	0	0	0	0	0	272 923
Loans and advances granted to other banks	42 329	0	0	0	0	0	0	42 329
Derivative financial instruments	0	0	0	283 197	0	0	0	283 197
Corporate bonds	0	0	5 408	0	0	0	0	5 408
Mortgage backed securities	0	0	3 423	0	0	0	0	3 423
Exposures to customers	**0**	**0**	**272 817**	**183 206**	**339 435**	**33 868 005**	**0**	**34 663 463**
Loans and advances granted to individuals	0	0	0	0	0	19 631 840	0	19 631 840
Loans and advances granted to micro customers	0	0	0	0	0	2 491 608	0	2 491 608
Loans and advances granted to large enterprises	0	0	0	0	0	10 345 724	0	10 345 724
Loans and advances granted to small and medium enterprises	0	0	0	0	0	1 311 710	0	1 311 710
Loans and advances granted to public sector entities	0	0	0	0	0	87 123	0	87 123
Equity investments	0	0	0	0	45 540	0	0	45 540
Derivative financial instruments	0	0	0	183 206	0	0	0	183 206
Corporate bonds	0	0	272 817	0	293 895	0	0	566 712
Other financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**177 596**	**177 596**
Total	**315 252**	**1 731 869**	**8 047 342**	**466 720**	**7 947 954**	**33 868 005**	**177 596**	**52 554 738**

Maximum exposure to credit risk for off-balance sheet amounted to:	**31 December 2017**	**31 December 2016**
Guarantees	2 118 321	1 928 262
Off balance liabilities of a financial nature	6 900 704	7 136 072
Total	**9 019 025**	**9 064 334**

Risk management (cont.)

Loan exposures to banks and customers as well as other financial assets presented in the statement of financial position are regularly tested for impairment (on an individual or collective basis). For the purpose of disclosure they are classified into one of the three categories of receivables: unimpaired not-overdue, unimpaired overdue and impaired. The above mentioned assets are presented in the following table by the gross value and by the customer segments:

31 December 2017	Exposure amount			
	Analysed on an individual basis	Analysed on a group basis	Total	Value of collateral reducing the maximum exposure to credit risk
Not overdue receivables without identified impairment	**207 443**	**30 666 404**	**30 873 847**	**14 845 327**
Amounts due from Central Bank and other banks	0	639 408	639 408	23 724
Individual customers	5 501	16 014 803	16 020 304	8 602 614
Micro customers	0	1 916 161	1 916 161	1 034 338
Large enterprises	0	10 620 518	10 620 518	4 517 073
Small and medium enterprises	0	1 369 787	1 369 787	667 578
Public sector	0	105 727	105 727	0
Other financial assets	201 942	0	201 942	0
Overdue receivables without identified impairment	**0**	**1 391 482**	**1 391 482**	**651 106**
Individual customers	0	1 189 243	1 189 243	521 882
Micro customers	0	145 524	145 524	84 931
Large enterprises	0	44 942	44 942	31 872
Small and medium enterprises	0	11 746	11 746	12 421
Receivables with identified impairment	**1 056 192**	**1 815 471**	**2 871 663**	**1 235 801**
Individual customers	12 186	1 048 425	1 060 611	322 760
Micro customers	27 304	767 046	794 350	341 503
Large enterprises	946 325	0	946 325	518 272
Small and medium enterprises	63 624	0	63 624	53 266
Other financial assets	**6 753**	**0**	**6 753**	**0**
Total other financial assets, gross	**1 263 635**	**33 873 357**	**35 136 992**	**16 732 234**
Impairment allowances on amounts due from Central Bank and other banks	**0**	**76**	**76**	**0**
Impairment allowances on loans and advances	**617 723**	**1 254 351**	**1 872 074**	**0**
Impairment allowances on other financial assets	**6 753**	**0**	**6 753**	**0**
Total other financial assets, net	**639 159**	**32 618 930**	**33 258 089**	**16 732 234**

Risk management (cont.)

31 December 2016	Exposure amount			
	Analysed on an individual basis	Analysed on a group basis	Total	Value of collateral reducing the maximum exposure to credit risk
Not overdue receivables without identified impairment	**186 854**	**32 258 097**	**32 444 951**	**15 489 393**
Amounts due from Central Bank and other banks	0	1 375 894	1 375 894	31 041
Individual customers	9 258	17 655 503	17 664 761	9 305 900
Micro customers	0	1 961 456	1 961 456	1 151 691
Large enterprises	0	9 887 206	9 887 206	4 404 196
Small and medium enterprises	0	1 290 466	1 290 466	596 565
Public sector	0	87 572	87 572	0
Other financial assets	177 596	0	177 596	0
Overdue receivables without identified impairment	**8 991**	**1 874 702**	**1 883 693**	**917 341**
Amounts due from Central Bank and other banks	0	17	17	0
Individual customers	1 259	1 621 170	1 622 429	732 899
Micro customers	0	151 865	151 865	102 397
Large enterprises	7 732	88 995	96 727	71 180
Small and medium enterprises	0	12 655	12 655	10 865
Receivables with identified impairment	**1 103 371**	**1 723 002**	**2 826 373**	**1 144 455**
Amounts due from Central Bank and other banks	3 502	0	3 502	0
Individual customers	28 940	1 006 850	1 035 790	355 566
Micro customers	31 030	716 152	747 182	363 311
Large enterprises	971 942	0	971 942	412 993
Small and medium enterprises	55 254	0	55 254	12 585
Other financial assets	12 703	0	12 703	0
Total other financial assets, gross	**1 299 216**	**35 855 801**	**37 155 017**	**17 551 189**
Impairment allowances on amounts due from Central Bank and other banks	**60**	**40**	**100**	**0**
Impairment allowances on loans and advances	**621 072**	**1 096 228**	**1 717 300**	**0**
Impairment allowances on other financial assets	**12 703**	**0**	**12 703**	**0**
Total other financial assets, net	**665 381**	**34 759 533**	**35 424 914**	**17 551 189**

The ageing analysis of overdue assets without identified impairment is presented in the following table.

As at 31 December 2017	Past due for					Total
	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	
Gross loans and advances - overdue but not impaired	**1 006 458**	**335 496**	**8 993**	**19 828**	**20 707**	**1 391 482**
Central Bank and other banks	4	0	1	0	22	27
Individual customers	904 812	280 801	433	592	2 605	1 189 243
Micro customers	89 507	54 321	706	708	282	145 524
Large enterprises	9 369	336	6 696	15 399	13 142	44 942
Small and medium enterprises	2 766	38	1 157	3 129	4 656	11 746
Total	**1 006 458**	**335 496**	**8 993**	**19 828**	**20 707**	**1 391 482**

Risk management (cont.)

As at 31 December 2016	Past due for					
	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	Total
Gross loans and advances - overdue but not impaired	**1 383 144**	**427 037**	**3 501**	**3 223**	**66 788**	**1 883 693**
Central Bank and other banks	**0**	0	0	0	17	17
Individual customers	1 268 951	346 757	235	1 270	5 216	1 622 429
Micro customers	93 753	57 851	23	54	184	151 865
Large enterprises	15 638	21 564	139	1 850	57 536	96 727
Small and medium enterprises	4 802	865	3 104	49	3 835	12 655
Total	**1 383 144**	**427 037**	**3 501**	**3 223**	**66 788**	**1 883 693**

Overdue but not impaired exposures relate to clients for which the Bank did not identify impairment in individual analysis and exposures with overdue amount below limit set by the Bank.

The following table presents credit quality of receivables neither past due nor impaired from Central Bank, other banks and the Bank's clients, set up based on internal rating models:

- exposures to National Bank of Poland were assigned a rating equal to that of Poland (rating A);
- for banks, branches of foreign credit institutions, financial sector institutions and the public sector, until October 2016 the Bank used ten grade scale ranging from A1 to D (where an A rating means minimal credit risk, and a D rating means impairment). Since November 2016 the Bank started using the new model rating to better diversify the risk. As a result the new 28-degrees scale of ratings was implemented. According the new scale the grades from 1A to 9C and 10 are assigned, where 1A is assigned to customers with the lowest level of credit risk and rating 10 to customer consider as insolvent;
- for individual and micro clients ranging from 0.5 to 5.0 (where a rating of 0.5 means minimal risk of failing to repay the loan and a rating of 5.0 means impairment);
- for corporate clients (including small and medium size enterprises) the Bank uses 28-degrees scale with ratings ranging from 1A to 9C and 10, where 1A rating is assigned to customers with the lowest level of credit risk, 10 ratings are assigned to customers who consider as insolvent;
- 5 grade scale for project investments with ratings ranging from 6.1 to 6.5 (where 6.1 rating means a minimum risk of default and 6.5 rating means impairment);
- for corporate clients (including small and medium enterprises) are assigned ratings from 0.5 to 5.0 (where 0.5 means minimal risk of failing to repay the loan and a rating of 5.0 means impairment) and from A1 to D (where an A means minimal credit risk, and a D rating means impairment).

Risk management (cont.)

Credit quality of financial assets neither past due nor impaired	31 December 2017				31 December 2016			
	Exposures				Exposures			
	to governments and central banks	to banks	to the public sector	Total	to governments and central banks	to banks	to the public sector	Total
1C	0	2 830	0	2 830	0	2 163	0	2 163
2A	0	21	0	21	0	7 803	0	7 803
2B	0	730	0	730	0	35 097	0	35 097
2C	0	7 628	0	7 628	0	13 449	0	13 449
3A	0	41 497	0	41 497	0	1 080	0	1 080
3B	0	1 333	0	1 333	0	205 714	0	205 714
3C	0	1 661	0	1 661	0	1 502	0	1 502
4A	0	0	0	0	0	1 096	0	1 096
4B	0	125	0	125	0	297	0	297
5B	0	0	0	0	0	54	0	54
6A	0	22 876	0	22 876	0	0	0	0
8B	0	24 551	0	24 551	0	0	0	0
8C	0	0	0	0	0	37 571	0	37 571
A	536 156	0	0	536 156	1 064 061	0	0	1 064 061
B2	0	0	0	0	0	0	2 177	2 177
B3	0	0	864	864	0	0	79 729	79 729
B4	0	0	104 275	104 275	0	0	871	871
B5	0	0	588	588	0	0	4 795	4 795
Non-rated exposures	0	0	0	0	0	6 007	0	6 007
Total	**536 156**	**103 252**	**105 727**	**745 135**	**1 064 061**	**311 833**	**87 572**	**1 463 466**

Raiffeisen POLBANK

Risk management (cont.)

Credit quality of financial assets neither past due nor impaired	31 December 2017			31 December 2016		
	Exposures			Exposures		
	to individuals	to micro customers	Total	to individuals	to micro customers	Total
0.5	7 791 749	30 043	7 821 792	8 864 916	71 581	8 936 497
1.0	1 021 622	117 683	1 139 305	1 065 186	144 171	1 209 357
1.5	2 143 242	411 405	2 554 647	1 352 441	562 252	1 914 693
2.0	2 730 067	461 199	3 191 266	3 432 244	445 746	3 877 990
2.5	736 675	259 195	995 870	1 189 722	179 531	1 369 253
2.5.1	64	147 324	147 388	174	121 904	122 078
3.0	563 584	98 799	662 383	637 060	87 923	724 983
3.0.1	132	103 017	103 149	0	86 393	86 393
3.5	517 023	124 895	641 918	604 392	114 550	718 942
4.0	102 844	78 346	181 190	140 119	51 536	191 655
4.5	75 814	44 563	120 377	118 815	25 520	144 335
4.5.1	491	0	491	67	0	67
Non-rated exposures	336 998	39 692	376 690	259 625	70 349	329 974
Total	**16 020 305**	**1 916 161**	**17 936 466**	**17 664 761**	**1 961 456**	**19 626 217**

Risk management (cont.)

Credit quality of financial assets neither past due nor impaired	31 December 2017 Exposures to large enterprises	31 December 2017 Exposures to small and medium enterprises	31 December 2017 Total	31 December 2016 Exposures to large enterprises	31 December 2016 Exposures to small and medium enterprises	31 December 2016 Total
6.1	279 496	0	279 496	428 241	0	428 241
6.2	1 820 590	0	1 820 590	1 356 385	0	1 356 385
6.3	272 643	0	272 643	745 760	0	745 760
6.4	302 162	0	302 162	410 038	0	410 038
6.5	150 601	0	150 601	373	0	373
1C	38 888	0	38 888	164	0	164
2B	0	0	0	14	0	14
2C	3 119	0	3 119	3 234	0	3 234
3A	2 236	0	2 236	0	0	0
3B	50 345	0	50 345	1 737	0	1 737
3C	5 224	0	5 224	135 786	0	135 786
4A	81 759	0	81 759	69 201	0	69 201
4B	188 038	354 558	542 596	62 812	308 210	371 022
4C	218 613	0	218 613	207 192	0	207 192
5A	732 997	0	732 997	493 193	0	493 193
5B	514 500	297 792	812 292	302 897	352 528	655 425
5C	699 305	0	699 305	909 326	0	909 326
6A	1 223 319	121 803	1 345 122	962 122	98 706	1 060 828
6B	1 471 487	90 968	1 562 455	1 247 065	108 393	1 355 458
6C	904 380	81 425	985 805	1 025 005	101 138	1 126 143
7A	827 834	132 740	960 574	551 391	98 814	650 205
7B	367 352	56 506	423 858	364 987	77 804	442 791
7C	208 349	58 389	266 738	222 770	61 554	284 324
8A	44 778	17 801	62 579	74 299	33 005	107 304
8B	120 795	21 200	141 995	37 830	13 120	50 950
8C	7 673	10 866	18 539	133 112	14 515	147 627
9A	1 613	0	1 613	13 802	0	13 802
9B	1	21 308	21 309	3 913	10 719	14 632
9C	0	0	0	3 691	0	3 691
1.0	11 148	4 337	15 485	2 399	1 745	4 144
2.5	2	0	2	71	0	71
C2	460	0	460	0	0	0
C3	490	0	490	0	0	0
C4	950	0	950	0	0	0
C5	915	0	915	0	0	0
C6	2 234	0	2 234	0	0	0
C7	44 536	0	44 536	0	0	0
Non-rated exposures	21 686	100 094	121 780	118 396	10 215	128 611
Total	**10 620 518**	**1 369 787**	**11 990 305**	**9 887 206**	**1 290 466**	**11 177 672**

Risk management (cont.)

The below tables present credit quality of trading assets, derivatives and investment securities, set up based on internal rating models of the Bank:

- Treasury bonds as well as bills and other receivables from National Bank of Poland were assigned a rating equal to that of Poland (rating A);
- Similarly the rating of a particular corporation is assigned to its issued debt securities as well as equity instruments, according to the rating scales described above.

	31 December 2017			31 December 2016		
	Exposures			Exposures		
	to governments and central banks	to banks	**Total**	to governments and central banks	to banks	**Total**
1C	0	488	488	0	865	865
1B	0	501 641	501 641	0	0	0
2A	0	2 773	2 773	0	3 062	3 062
2B	0	31 171	31 171	0	25	25
2C	0	16 128	16 128	0	3 438	3 438
3A	0	392 041	392 041	0	5 557	5 557
3B	0	14	14	0	278 772	278 772
3C	0	183	183	0	173	173
4A	0	17	17	0	0	0
4B	0	6 682	6 682	0	0	0
5A	0	0	0	0	136	136
A	12 986 517	0	12 986 517	15 374 530	0	15 374 530
Total	**12 986 517**	**951 138**	**13 937 655**	**15 374 530**	**292 028**	**15 666 558**

Risk management (cont.)

	31 December 2017			31 December 2016		
	to individuals	to micro customers	**Total**	to individuals	to micro customers	**Total**
5C	0	9	9	0	13	13
6C	0	1	1	0	0	0
7A	0	806	806	0	0	0
7B	0	94	94	0	0	0
Non-rated exposures	260	6 245	6 505	1 135	2 566	3 701
Total	**260**	**7 156**	**7 416**	**1 135**	**2 705**	**3 840**

Risk management (cont.)

	31 December 2017				31 December 2016			
	to large enterprises	to small and medium enterprises	to the public sector	**Total**	to large enterprises	to small and medium enterprises	to the public sector	**Total**
1.5	0	0	0	0	40	0	0	40
6.1	3 449	0	0	3 449	6 255	0	0	6 255
6.2	24 428	0	0	24 428	30 808	0	0	30 808
6.3	1 386	0	0	1 386	24 804	0	0	24 804
6.4	2 243	0	0	2 243	5 776	0	0	5 776
6.5	110	0	0	110	477	0	0	477
1C	8 406	0	0	8 406	0	0	0	0
2A	0	0	0	0	326	0	0	326
2B	63 448	0	0	63 448	18 671	0	0	18 671
3B	30 902	0	0	30 902	292 680	0	0	292 680
4A	240	0	0	240	698	0	0	698
4B	3 280	5 049	0	8 329	1 948	3 349	0	5 297
4C	1 367	0	0	1 367	9 187	0	0	9 187
5A	6 531	0	0	6 531	3 456	0	0	3 456
5B	15 430	1 969	0	17 399	27 368	2 219	0	29 587
5C	38 227	0	0	38 227	32 726	0	0	32 726
6A	10 400	558	0	10 958	34 163	739	0	34 902
6B	16 657	469	0	17 126	151 308	475	0	151 783
6C	165 995	549	0	166 544	16 985	188	0	17 173
7A	2 648	1 979	0	4 627	2 022	428	0	2 450
7B	3 412	154	0	3 566	19 942	237	0	20 179
7C	52 617	178	0	52 795	55 540	387	0	55 927
8A	122	94	0	216	27	176	0	203
8B	136	475	0	611	51	72	0	123
8C	0	8	0	8	0	39	0	39
9B	0	10	0	10	0	19	0	19
10	3 209	468	0	3 677	16 986	0	0	16 986
B1	0	0	18 121	18 121	0	0	0	0
B3	0	0	0	0	15 005	0	0	15 005
B4	0	0	15 006	15 006	0	0	0	0
C2	33	0	0	33	0	0	0	0
C3	102	0	0	102	0	0	0	0
C4	117	0	0	117	0	0	0	0
C5	5	0	0	5	12	0	0	12
C6	1	0	0	1	7	0	0	7
C8	0	0	0	0	179	0	0	179
Non-rated exposures	1 452	682	16	2 151	56 198	111	0	56 309
Total	**456 353**	**12 642**	**33 143**	**502 138**	**823 673**	**8 439**	**0**	**832 112**

Risk management (cont.)

The following table provides information on concentration of credit risk by industry in case of exposures from the Central Bank, other banks and the Bank's clients.

Structure of gross exposures by industrial sectors				
	As at 31 December 2017		As at 31 December 2016	
Name of the industry	**Gross amount of exposures**	**Share in total exposure (%)**	**Gross amount of exposures**	**Share in total exposure (%)**
Households	18 350 758	52,5%	20 410 226	55,2%
Wholesale and retail trade; repair of motor vehicles, motorcycles	4 444 450	12,7%	3 971 528	10,7%
Manufacturing	3 108 877	8,9%	3 072 416	8,3%
Financial and insurance activities	2 652 680	7,6%	2 732 544	7,4%
Activities related to real estate	1 340 903	3,8%	1 020 482	2,8%
Production and supply of electricity, gas, steam and air conditioning supply	1 247 098	3,6%	1 984 758	5,4%
Construction	809 573	2,3%	717 736	1,9%
Transport and warehouse	735 425	2,1%	567 729	1,5%
Information and communication	663 937	1,9%	956 644	2,6%
Professional, scientific and technical activities	428 498	1,2%	497 577	1,3%
Hotels and restaurants	319 802	0,9%	358 180	1,0%
Administration activities and supporting activities	260 871	0,7%	217 351	0,6%
Other	565 426	1,6%	457 547	1,3%
Total	**34 928 298**	**100,0%**	**36 964 718**	**100,0%**

Risk management (cont.)

Practices „Forbearance"

With reference to document 2012/853 issued by European Securities and Markets Authority (ESMA) and instruction from European Banking Authority in relation to disclosures concerning the "forborne" exposure Bank implemented following practices for classification of those exposures .

The exposures flagged as "forborne" are loan agreements with reference to which concession agreement with debtors, who experience or will experience the difficulties in meeting their financial commitments, was made. The concession agreement applies one of the following actions:

- changes in current agreement conditions, as a result of which – as it is presumed – the debtors could not meet due to the financial difficulties ("at risk"), leading to insufficient ability to service the debt, which would not take place if debtor did not face financial difficulties;
- full or partial refinancing of debt agreement at risk, which would not take place if debtor did not face financial difficulties.

Exposures are not reported as "forborne", when all of the below conditions are met:

- the agreement is no longer considered at risk, including situations when it was removed from agreement at risk category after analysis of debtor's financial situation, which proved the agreement does not fulfill conditions required to consider it as at risk,
- from the date the exposure was assessed as not at risk at least two year probation period passed,
- the regular payments of significant amount of principal or interest have been made during at least half of the probation period,
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

When the concession agreement leads to significant change in conditions or future expected cash flows, compared to market conditions or expected future cash flows from current financial assets, current financial asset is derecognized from the statement of financial position, and new financial assets is recognized in the statement of financial position, at the recognition date, in value net of impairment loss due to credit risk applicable for the new financial asset. The difference between impairment losses due to credit risk are recognized in profit or loss. This recognition is not related to the change or lack of change in legal form of the transaction and is based on its economic substance.

With reference to non-retail exposures the forbearance agreement, changing the conditions of agreement due to the debtor financial difficulties is treated as one of the triggers to perform individual impairment loss test and results in requirement to perform analysis whether to recognize an impairment loss on the exposure.

Risk management (cont.)

The retail exposures flagged as "forborne" for which impairment trigger was identified are covered by collective model of impairment . The retail exposures flagged as "forborne" for which impairment trigger was not identified are covered by IBNR model. The details of the impairment loss calculation for loans exposures are presented in note 2.8. to the financial statements. The below table presents the value of „forborne" exposures:

Forborne exposures				
31 December 2017	**Gross value**	**Impairment allowance**	**Net value**	**Value of received collateral**
Not impaired exposures	**627 644**	**18 146**	**609 498**	**226 972**
Non past due	**461 639**	**11 054**	**450 585**	**128 771**
Individual customers	129 306	806	128 500	75 466
Micro customers	47 516	402	47 114	41 385
Large enterprises	280 613	9 555	271 058	11 630
Small and medium enterprises	4 204	291	3 913	290
Past due	**166 005**	**7 092**	**158 913**	**98 201**
Individual customers	111 032	4 006	107 026	63 330
Micro customers	38 020	1 915	36 105	33 700
Large enterprises	12 869	889	11 980	889
Small and medium enterprises	4 084	282	3 802	282
Impaired exposuers	**951 796**	**492 115**	**459 681**	**468 555**
Group method	**362 619**	**192 836**	**169 783**	**176 653**
Individual customers	179 756	104 277	75 479	74 686
Micro customers	182 863	88 559	94 304	101 967
Individual method	**589 177**	**299 279**	**289 898**	**291 902**
Individual customers	11 298	5 479	5 819	5 819
Micro customers	12 342	8 191	4 151	4 151
Large enterprises	553 010	277 539	275 471	274 808
Small and medium enterprises	12 527	8 070	4 457	7 124
Total	**1 579 440**	**510 261**	**1 069 179**	**695 527**

Risk management (cont.)

Forborne exposures				
31 December 2016	**Gross value**	**Impairment allowance**	**Net value**	**Value of received collateral**
Not impaired exposures	**809 570**	**18 596**	**790 974**	**587 725**
Non past due	**513 232**	**6 499**	**506 733**	**386 679**
Individual customers	265 713	1 317	264 396	145 678
Micro customers	112 146	633	111 513	106 080
Large enterprises	132 398	4 370	128 028	132 342
Small and medium enterprises	2 975	179	2 796	2 579
Past due	**296 338**	**12 097**	**284 241**	**201 046**
Individual customers	182 560	5 683	176 877	94 202
Micro customers	55 802	2 408	53 394	49 023
Large enterprises	53 708	3 711	49 997	53 708
Small and medium enterprises	4 268	295	3 973	4 113
Impaired exposuers	**932 106**	**512 060**	**420 046**	**422 208**
Group method	**341 804**	**166 114**	**175 690**	**180 500**
Individual customers	172 711	96 030	76 681	74 374
Micro customers	169 093	70 084	99 009	106 126
Individual method	**590 302**	**345 946**	**244 356**	**241 708**
Individual customers	21 764	9 763	12 001	10 055
Micro customers	15 336	10 011	5 325	4 701
Large enterprises	543 763	319 577	224 186	224 108
Small and medium enterprises	9 439	6 595	2 844	2 844
Total	**1 741 676**	**530 656**	**1 211 020**	**1 009 933**

In "Not impaired exposures" category are presented loans exposures with impairment trigger identified, but no impairment loss recognized, are presented of gross value PLN 299 695 thousand (in 2016 PLN 202 672 thousand), and impairment loss (IBNR) of PLN 11 017 thousand (in 2016 PLN 8 555 thousand).

In the table below "forborne" exposures to loans share is presented:

Net amount exposures				
31 December 2017	**Forborne**	**Total Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	316 824	17 516 114	2%	125 971
Micro customers	181 674	2 402 102	8%	36 457
Large enterprises	558 509	11 000 995	5%	254 483
Small and medium enterprises	12 172	1 392 595	1%	0
Public sector	0	104 983	0%	0
Total	**1 069 179**	**32 416 789**	**3%**	**416 911**

Risk management (cont.)

Net amount exposures				
31 December 2016	**Forborne**	**Total Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	529 955	19 631 840	2%	287 811
Micro customers	269 241	2 491 608	12%	141 202
Large enterprises	402 211	10 345 724	5%	205 704
Small and medium enterprises	9 613	1 311 710	1%	3 029
Public sector	0	87 123	0%	0
Total	**1 211 020**	**33 868 005**	**4%**	**637 746**

** - the Bank classifies to the category "Under probation", which is defined for 2 years, the exposures towards which previously concessions were granted and which are currently under observation before the full recovery*

In the table below "forborne" exposures are presented by days past due:

Forborne exposures - gross		**Past due**					
31 December 2017	Not past due	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	**Total**
Not impaired exposures	**461 639**	**77 343**	**72 008**	**424**	**12 222**	**4 008**	**627 644**
Individual customers	129 306	60 173	50 859	0	0	0	**240 338**
Micro customers	47 516	16 876	21 144	0	0	0	**85 536**
Large enterprises	280 613	0	5	0	11 247	1 617	**293 482**
Small and medium enterprises	4 204	294	0	424	975	2 391	**8 288**
Impaired exposuers	**314 354**	**13 668**	**24 239**	**24 225**	**38 588**	**536 723**	**951 797**
Individual customers	5 249	6 613	15 944	15 847	14 123	133 278	**191 054**
Micro customers	1 588	2 541	8 295	5 990	7 696	169 096	**195 206**
Large enterprises	304 222	4 514	0	2 045	16 769	225 460	**553 010**
Small and medium enterprises	3 295	0	0	343	0	8 889	**12 527**
Total	**775 993**	**91 011**	**96 247**	**24 649**	**50 810**	**540 731**	**1 579 441**

Forborne exposures - gross		**Past due**					
31 December 2016	Not past due	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	**Total**
Not impaired exposures	**513 233**	**150 682**	**100 036**	**1 989**	**0**	**43 630**	**809 570**
Individual customers	265 713	120 312	62 221	0	0	27	**448 273**
Micro customers	112 146	30 105	25 697	0	0	0	**167 948**
Large enterprises	132 399	265	12 118	0	0	41 325	**186 107**
Small and medium enterprises	2 975	0	0	1 989	0	2 278	**7 242**
Impaired exposuers	**315 321**	**10 899**	**35 643**	**37 347**	**29 368**	**503 528**	**932 106**
Individual customers	8 290	8 481	24 157	27 717	11 753	114 076	**194 474**
Micro customers	6 084	2 418	11 486	9 630	17 335	137 476	**184 429**
Large enterprises	300 335	0	0	0	0	243 429	**543 764**
Small and medium enterprises	612	0	0	0	280	8 547	**9 439**
	828 554	**161 581**	**135 679**	**39 336**	**29 368**	**547 158**	**1 741 676**

Risk management (cont.)

Changes in carrying amount of "forborne" loans and advances to customers during the year ended 31 December 2017 and 2016 are presented below:

	For the year ended 31 Decemeber 2017	For the year ended 31 Decemeber 2016
Net carrying amount at the beginning of year	**1 211 020**	**1 366 710**
Changes in impairment allowances in the year	20 395	-58 782
Amount of exposures with the flag removed in the year	-567 921	-625 778
Amount of exposures flagged in the year	500 414	559 441
Change due to repayments and fx difference	-94 729	-30 571
Net carrying amount at the end of year	**1 069 179**	**1 211 020**

Concentration limits

In order to diversify the credit risk, the Bank implemented internal concentration limits relevant to the scale of activity and complexity of exposure reducing the size of the portfolios. Limits were implemented for internal control purposes and management of the exposure through regular monitoring.

Credit risk limits are determined in internal policies and accepted by the Management Board of the Bank.

The Bank monitors in compliance with the article 395 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013 the utilization of concentration limits for individual clients and groups of clients within the same capital or organizational group.

The amounts of acceptable credit concentration limit for a single client or a group of related clients were as follows:

Acceptable concentraton limit	As of 31 December 2017	As of 31 December 2016
Bank exposure concentration limit (25%)	1 797 979	1 527 855

The Bank had no exposures exceeding the above mentioned concentration limit.

Exposure to a single borrower is subject to further limitations in the form of specific limits concerning exposure to risk and daily supply risk limits applicable to items such as foreign exchange forward contracts. The actual risk exposure is compared with the acceptable limits on a daily basis.

Customer balance and off-balance's exposures exceeding 10% of Bank's equity are presented below – as at 31 December 2017 PLN 719 192 thousand (PLN 611 142 thousand as at 31 December 2016). They are presented based on exposure to a single customer or a capital group without taking into account any deductions resulting from the use of credit risk reduction techniques or exemptions defined in article 395 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013 of the Resolution on exposure concentration limits. Exposures to governments, central banks and other banks were also included.

Risk management (cont.)

31 December 2017				
Customer No.	**Borrower name**	**Exposure limit**	**Entity / Group**	**% share**
1	Borrower 1	4 558 752	Entity	0%
2	Borrower 2	8 868 065	Group	0%
3	Borrower 3	8 642 421	Entity	0%

31 December 2016				
Customer No.	**Borrower name**	**Exposure limit**	**Entity / Group**	**% share**
1	Borrower 1	8 583 718	Group	0%
2	Borrower 2	8 329 279	Entity	0%
3	Borrower 3	7 393 915	Entity	0%
4	Borrower 4	657 590	Group	0%

As at 31 December 2017 and 2016 exposures to borrowers: 1, 2 and 3 relate to the National Bank of Poland and the State Treasury and are not subject to total exposure limit of 25% of equity (resulting from article 400 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013) After applying exceptions set out in article 400 of Regulation (UE), exposure to those borrowers is below the permissible credit concentration limit which is below 25%.

Retail mortgage loans denominated in foreign currencies

The CHF mortgage loans portfolio is a significant subject of credit risk management due to its value and share in the total loans portfolio of the Bank. The share of the loans denominated in CHF was equal to 28.03% of all loans of the Bank as at the end of the 2017, out of which 29.54% concerned individual clients and 1.12% micro-enterprises.

The below table presents value of mortgage loans portfolio divided by currencies and by segments to individual clients and micro-enterprises as at 31 December 2017 and 31 December 2016.

Risk management (cont.)

Loans for individuals and micro customers mortgage loans porfolio by denomination currencies	31 December 2017		31 December 2016	
	Gross amount	Share in portfolio	Gross amount	Share in portfolio
Individual customers				
PLN	2 229 374	13,8%	1 954 915	10,6%
EUR	3 198 153	19,8%	3 657 369	19,8%
CHF	9 434 761	58,5%	11 538 547	62,4%
USD	5 490	0,0%	5 673	0,0%
Total	**14 867 778**	**92,2%**	**17 156 504**	**92,8%**
Micro customers				
PLN	876 216	5,4%	832 755	4,5%
EUR	69 184	0,4%	84 461	0,5%
CHF	306 683	1,9%	407 544	2,2%
Total	**1 252 083**	**7,8%**	**1 324 760**	**7,2%**
Total				
PLN	3 105 590	19,3%	2 787 669	15,1%
EUR	3 267 337	20,3%	3 741 829	20,2%
CHF	9 741 444	60,4%	11 946 091	64,6%
USD	5 490	0,0%	5 673	0,0%
Total	**16 119 861**	**100,0%**	**18 481 262**	**100,0%**

The table presents only retail loans (individual customers and micro customers) and mortgage products (loans arising from the restructuring and consolidation among mortgages have not been presented in the table above).

As at 31 December 2017 the impairment allowance on mortgage loans in CHF for infividual customers amounted to PLN 102 842 thousand and decreased by PLN 28 906 thousand compared to the end of the year 2016.

Average LTV on mortgage loans for individual clients denominated in foreign currencies amounted to 105.7% as at 31 December 2017 (as at 31 December 2016 amounted to 126.1%).

The below table presents quality of gross mortgage loans portfolio granted to individual clients by past due days (DPD) as at 31 December 2017.

Risk management (cont.)

Gross loans for individual and micro customers secured by mortgage by dpd (in PLN thous)		Past due (DPD)			
Currency	not overdue	<1 - 90>	<91 - 180>	above 180	Total
		Individual customers			
PLN	1 586 155	84 383	5 262	553 574	2 229 374
EUR	3 063 995	120 123	8 201	5 834	3 198 153
CHF	8 620 552	685 534	34 040	94 634	9 434 760
USD	5 490	0	0	0	5 490
Total	**13 276 192**	**890 040**	**47 503**	**654 042**	**14 867 777**
		Micro customers			
PLN	583 228	27 314	5 089	260 585	876 216
EUR	63 734	4 411	746	292	69 183
CHF	274 891	26 679	1 220	3 893	306 683
Total	**921 853**	**58 404**	**7 055**	**264 770**	**1 252 082**
		Total			
PLN	2 169 384	111 697	10 351	814 158	3 105 590
EUR	3 127 729	124 534	8 947	6 126	3 267 336
CHF	8 895 444	712 213	35 260	98 528	9 741 445
USD	5 490	0	0	0	5 490
Total	**14 198 047**	**948 444**	**54 558**	**918 812**	**16 119 861**

Proposals of system solutions connected with currency risk of portfolios denominated in CHF, presented by different state and supervisory agencies, might have negative influence on financial results and equity of the Bank. The analysis of the draft impact on the financial statements of the Bank could not be finalized at the moment of publication of these financial statements due to the significant differences in draft projects submitted for processing by the Parliament and being developed by the supervisory authorities.

Exposures from Renewable Energy Sources segment

Due to changing legal environment and changes in legislative process, in particular:

- changes in acts regulating Renewable Energy Sources (RES) market,
- amendment of regulations relating to installation of RES, i.e. Act on Investments in Wind farms (called distance act) dated 20 May 2016,
- amendment of the RES laws, i.e. Law on renewable energy sources date 20 July 2017,

there were changes, which have direct impact on the RES market, including Wind farms market. Negative impact on the RES market has also temporary oversupply of Green certificates and its consequences.

According to the Bank's policy, the Bank does not finance new projects from Wind farms segment. As at 31 December 2017 all loan exposures to renewable energy sources were managed by the Corporate Banking Restructuring and Collection Department, to allow Bank to take all necessary actions. Existing Bank's exposure is under constant monitoring and periodic reviews, including detailed analysis of cash flows. All

Risk management (cont.)

exposures from Wind farms segment are in the repayments period and are financed as a part of project finance. Bank's exposure to the Wind farms is decreasing in the following months. The above described strategy will be continued.
In calculation of impairment on Renewable Energy portfolio, Bank prepares scenario estimations taking into account expected developments in prices of green certificates and electricity. As at 31 December 2017 the most likely scenario which Bank takes into account assumes that the market price will not significantly increase above the current market value of green certificates and prices of electricity.

As at 31 December 2017 loans and advances to renewable energy sources amounted to PLN 395 776 thousand, individual impairment amounted to PLN 108 735 thousand and collective impairment of PLN 12 300 thousand (as at 31 December 2016 respectively: PLN 455 481 thousand, PLN 47 127 thousand and PLN 8 683 thousand).

43. Liquidity risk

The main purpose of the liquidity risk management process is to develop a structure of Bank's balance sheet that allows to achieve profit targets defined in the financial plan and, at the same time, to maintain Bank's ability to timely settle its liabilities and comply with both internal and external (regulatory) liquidity risk limits.

In order to ensure a safe liquidity profile, the Bank defined in the Risk management strategy, approved by the Supervisory Board, the main indicators, which the Bank intends to maintain on the appropriate levels, among others:

- The excess of the accumulated adjusted liquidity gap, constructed in accordance with the applicable Bank's methodology in all maturity tenors,
- In the short horizon possessing a surplus of inflows over outflows in a defined internal crisis scenario, which includes both the financial markets crisis and Bank's reputational crisis,
- Holding of the internally defined buffers above the minimum levels of all supervisory liquidity ratios relating to the Bank.

The managing of current and inter-day liquidity of Bank is performed by Liquidity Management Team. The level of mid-term and long-term liquidity risk incurred by the Bank is assessed based on liquidity reports and the Department of Assets and Liabilities is responsible for operational management of this risk.

The liquidity reports show the liquidity gap level (static analysis of the liquidity gap), i.e. a gap between the maturities of assets and liabilities in particular time periods, based on the level of liquidity ratios achieved, which show the ratio of accumulated inflows to accumulated outflows in any given period.

Risk management (cont.)

The reports are prepared for balance sheet and off-balance sheet items in PLN and in base foreign currencies, i.e. EUR, USD, CHF, ,GBP. The reports take into account the elements of modeling the behavior of the financial market and that of Bank's customers (e.g. renewal of deposits, core deposits on current accounts, the probability of realization of off-balance sheet liabilities, necessity to maintenance of required balance of the mandatory reserve and adjustment of receivables due to identified impairment).

The Bank also calculates on a daily basis regulatory liquidity ratios in accordance with the requirements of Resolution No. 386/2008 of the Polish Financial Supervision Authority as amended and also prognosis of the regulatory ratios in horizon of a few months. The level of LCR ratio is also subject to calculation and limitation.

In the annual stress tests the Bank analyzes the potential liquidity threats in crisis situation by examining them for their potential severity and the probability of their occurrence. As a part of this process The Central Crisis Scenario is defined, the result of which is then tested on a daily basis and not meeting its conditions may be a background to start the emergency plan. This scenario assumes the simultaneous occurrence of the financial markets crisis and reputational crisis, resulting in, among others, respectively on increased outflow of deposits depending on the category, the negative impact of exchange rates reflected in the necessity to increase the balance of collateral accounts for settlement of derivative transactions, no possibility to obtain funds from the interbank market or immediate outflow of deposits of high concentration risk. In such defined scenario the Bank assumes the possibility of undisturbed operations in the horizon of a minimum of 30 days without having to take additional action.

In the Bank, mid-term and long-term liquidity risk is managed by the Asset – Liability Committee (ALCO), which determines the desired structure of Bank's balance sheet using a system of limits covering e.g. the liquidity gap amount, the level of deposit concentration, the ratio of loan portfolio value to the value of deposits.

The Department of Asset and Liability Management operates on the financial market to achieve an appropriate structure of the portfolio of assets and liabilities, so that the required liquidity risk limits are complied with. The Bank's pricing and product policy, as an instrument that affects the structure of the Bank's balance sheet, is another tool used to manage liquidity risk.

The following table presents an analysis of future payments relating to financial liabilities in the form of undiscounted cash flows.

Risk management (cont.)

31 December 2017 Type of liability	Nominal amount	Carrying amount	Contractual cash flows within 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	Total
Liabilities in respect of derivative financial instruments	**440 617**	**561 536**	**231 699**	**31 047**	**38 619**	**27 976**	**329 341**
inflows	17 902 879	-	11 476 111	2 386 658	4 408 139	34 593	18 305 501
outflows	18 343 495	-	11 707 809	2 417 705	4 446 758	62 569	18 634 841
Financial liabilities	**41 622 929**	**41 662 942**	**33 865 251**	**5 218 412**	**1 773 037**	**1 121 832**	**41 978 532**
Amounts due to banks and other monetary institutions	5 774 414	5 779 865	1 169 233	3 042 098	1 602 673	0	5 814 004
including received loans	5 140 157	5 144 754	548 807	3 040 503	1 589 424	0	5 178 734
Amounts due to customers	34 357 972	34 392 256	32 313 392	2 076 121	35 034	442	34 424 989
Subordinated liabilities	1 064 581	1 064 859	6 602	26 406	125 429	1 086 167	1 244 604
Liabilities from issuance of debt securities	0	0	0	0	0	0	0
Other financial liabilities	425 962	425 962	376 024	73 787	9 901	35 223	494 935
Guarantee liabilities granted	**2 118 321**	**-**	**0**	**2 118 321**	**0**	**0**	**2 118 321**
Financial liabilities granted	**6 900 704**	**-**	**0**	**3 692 439**	**3 208 265**	**0**	**6 900 704**

31 December 2016 Type of liability	Nominal amount	Carrying amount	Contractual cash flows within 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	Total
Liabilities in respect of derivative financial instruments	**1 422 175**	**1 546 175**	**266 961**	**147 254**	**590 338**	**7 899**	**1 012 452**
inflows	25 708 330	-	13 554 027	3 091 540	9 413 096	375 199	26 433 862
outflows	27 130 505	-	13 820 988	3 238 795	10 003 434	383 098	27 446 315
Financial liabilities	**45 032 600**	**45 046 427**	**35 001 410**	**5 164 379**	**5 575 265**	**283 597**	**46 024 651**
Amounts due to banks and other monetary institutions	7 426 757	7 433 406	304 025	2 293 250	5 344 063	0	7 941 338
including received loans	7 094 115	7 099 171	0	2 254 237	5 331 004	0	7 585 241
Amounts due to customers	36 356 751	36 361 807	34 330 304	2 345 517	63 505	340	36 739 666
Subordinated liabilities	331 804	332 096	3 373	10 120	146 119	251 197	410 809
Liabilities from issuance of debt securities	500 000	501 830	7 775	507 775	0	0	515 550
Other financial liabilities	417 288	417 288	355 933	7 717	21 578	32 060	417 288
Guarantee liabilities granted	**1 928 262**	**-**	**0**	**1 928 262**	**0**	**0**	**1 928 262**
Financial liabilities granted	**7 136 072**	**-**	**0**	**3 402 756**	**3 733 316**	**0**	**7 136 072**

The following table presents the cumulative liquidity gap of the Bank including off-balance transactions (without credit lines).

	within 1 month	up to 1 - 3 months	up to 3 - 12 months	up to 1 - 2 years	up to 2 - 3 years	up to 5 years	up to 20 years
31 December 2017	-16 170 382	-19 885 927	-20 901 022	-18 677 529	-14 950 275	-9 720 893	1 610 880
31 December 2016	-11 678 432	-17 304 521	-19 009 829	-20 698 944	-18 138 933	-11 826 321	971 460

Amounts due to customers in current accounts are presented in liabilities „within 1 month”.

Risk management (cont.)

The Bank's activities are aimed at transforming the maturities of assets and liabilities to reflect the preferences of customers who place their deposits with the Bank and receive loans from it, while maintaining the acceptable level of risk mitigated by mid-term and long-term financing obtained on the interbank market.

The structure of maturities of assets and liabilities and an ability to replace at acceptable cost interest-bearing liabilities upon their maturities, all are considered significant elements of Bank's liquidity assessment and its exposure to changes in interest rates and foreign exchange rates.

44. Other market risks

44.1. Market risk

Market risk is related to open positions on interest rate, foreign exchange and equity products exposed to changes in market values. For the purposes of determining risk limits, the Bank uses simulation methods relying on the base point value and methods based on the net position value.

The market risk management process is subject to continuous assessment and evolution in order to adjust it to the changing market conditions.

The management process comprises:

- identification of risk factors;
- risk measurement;
- risk monitoring;
- risk reporting.

44.2. Currency risk

Currency risk is a risk of changes in value of individual financial instruments due to fluctuations in foreign exchange rates. In connection with its activity, the Bank is exposed to the effect of fluctuations in foreign exchange rates on its financial position and cash flows.

Currency risk, understood as the probability of incurring a loss, depends on:

- foreign exchange rate fluctuations,
- non-matching receivables and liabilities in foreign currencies.

The main purpose of currency risk management is to identify areas prone to currency risk and take actions aimed at reducing the risk to an acceptable level.

For the purposes of currency risk management, the Bank has developed a system of market risk levels. As part of the division of responsibilities in the risk management process the Bank's Management Board

Risk management (cont.)

determines in its Asset and Liability Management Policy the level of general currency risk appetite, taking into account budget assumptions and the effect of potential losses on the Bank's equity.

The Bank's currency risk management policy assumes having a foreign exchange position, which enables the Bank to offer its customers competitive foreign exchange quotations. Currency risk is immaterial – the capital requirement in respect of foreign exchange risk is equal to PLN 487 thousand. The Bank uses simulation methods in the management process, utilizing value at risk (VaR) method in calculation of currency risk exposure.

Detailed values of the individual limits are determined by the Asset – Liability Committee and cover:

- the maximum overnight open position levels for each currency,
- the maximum open position in Greek's ratios for each currency pair
- the total overnight and intraday open position levels for all currencies,
- the value at risk limit, determined for a 1-day position maintenance horizon and the confidence level of 99%. Value at risk is determined by the variance — covariance method,
- monthly, quarterly and annual maximum loss limits.

The amount of currency risk borne by the Bank, measured by VaR method according to the above described parameters is presented in the below table:

Value at risk limit	31 December 2017				31 December 2016
	Min.	Max.	Average	As at 31 December 2017	As at 31 December 2016
Currency risk	8	328	64	96	84

Moreover, for the purposes of calculating the requirement with respect to currency risk exposure, the so-called basic method is used, which determines the acceptable limits of exposure to the risk of unmatched currency receivables and liabilities (i.e. total position) with respect to the Bank's own funds.

Daily reports on Bank's currency position, comprising an analysis of foreign exchange operations in the context of both the compliance with prudential regulatory standards (limits) and the economic results, are presented to the directors of organizational units responsible for risk management and control and to the Members of the Management Board of the Bank.

As at 31 December 2017 and 31 December 2016 the Bank carried out an analysis of the impact of changes in foreign exchange rates on foreign exchange positions of the Bank for three foreign currencies (EUR, CHF, USD), which have the largest open position. The results of this analysis are presented in the table below (in PLN thousand):

Risk management (cont.)

31 December 2017	Base position	Exposure after rate change of -50 pts	Exposure after rate change of +50 pts	Impact on the profit/loss rate after change of -50 pts	Impact on the profit/loss after rate change of +50 pts
EUR	-14 186	-14 169	-14 203	17	-17
USD	224	224	225	0	0
CHF	-75 766	-75 660	-75 872	106	-106
Total				**123**	**-123**

31 December 2016	Base position	Exposure after rate change of -50 pts	Exposure after rate change of +50 pts	Impact on the profit/loss rate after change of -50 pts	Impact on the profit/loss after rate change of +50 pts
EUR	-47 367	-47 314	-47 421	54	-54
USD	5 956	5 949	5 963	-7	7
CHF	-8 190	-8 180	-8 200	10	-10
Total				**57**	**-57**

Assuming that exchange rates fall at the same time by 50 base points, the Bank's result for the year 2017 due to open the currency position would increase by PLN 123 thousand, while with an increase in exchange rate by 50 base points the Bank's result would decrease by PLN 123 thousand.

As at 31 December 2017, Bank's net short currency position amounted to PLN 89 952 thousand, which constituted 1.25 % of Bank's own funds (31 December 2016 net short currency position of the Bank amounted to PLN 55 558 thousand, which was equal to 0.91 % of Bank's own funds). The following table presents the Bank's balance sheet and off-balance items by currency.

Assets, liabilities and off-balance items in foreign currencies and the Bank's foreign exchange position					
31 December 2017	**EUR**	**USD**	**CHF**	**Other**	**Total**
Balance sheet components of foreign exchange position – assets	8 231 342	500 670	10 146 024	196 783	19 074 819
Balance sheet components of foreign exchange position – liabilities	8 916 851	2 101 551	3 938 152	554 821	15 511 375
Off-balance components of foreign exchange position – amounts receivable	10 799 986	9 970 478	207 112	640 392	21 617 968
Off-balance components of foreign exchange position – amounts payable	10 128 662	8 369 372	6 490 750	282 202	25 270 987
Net long foreign exchange position (+)	**-**	**224**	**-**	**152**	**377**
Net short foreign exchange position (-)	**14 186**	**-**	**75 766**	**-**	**89 952**

Assets, liabilities and off-balance items in foreign currencies and the Bank's foreign exchange position					
31 December 2016	**EUR**	**USD**	**CHF**	**Other**	**Total**
Balance sheet components of foreign exchange position – assets	8 196 124	517 692	12 174 196	215 508	21 103 520
Balance sheet components of foreign exchange position – liabilities	8 611 992	1 776 804	4 422 048	397 563	15 208 407
Off-balance components of foreign exchange position – amounts receivable	10 850 430	9 618 640	824 926	613 002	21 906 998
Off-balance components of foreign exchange position – amounts payable	10 481 929	8 353 572	8 585 263	428 776	27 849 541
Net long foreign exchange position (+)	**-**	**5 956**	**-**	**2 171**	**8 127**
Net short foreign exchange position (-)	**47 367**	**-**	**8 190**	**-**	**55 558**

For period covered by these financial statements there were no significant changes in currency risk management.

Risk management (cont.)

44.3. Interest rate risk for cash flows and fair value

Interest rate risk results from the fact that the possible changes in market interest rates can affect future cash flows or the fair value of financial instruments held by the Bank.

The main objectives of interest rate risk management include identification of the areas in which the Bank is exposed to interest rate risk and structuring of balance sheet, so that the maximum net interest income can be achieved.

The Bank's policy on interest rate risk management assumes the existence of a system of internal transfer prices within the Bank, as part of which the business units, which do not incur interest rate risk on their own behalf, but transfer the risk to the units responsible for its central management.

For the purpose of interest rate risk management in the Bank, a system of market risk levels has been developed. As part of the division of responsibilities in the risk management process the Bank's Management Board in its Assets and Liabilities Management Policy determines the level of general interest rate risk appetite, taking into account the budget assumptions and the effect of potential losses on the Bank's equity.

Subsequently, the detailed values of the individual limits are determined by the Asset – Liability Committee and cover:

- the maximum open interest rate position limits measured as the amount of change in the fair value resulting from a 1 base point increase in market interest rates. The limits are diversified with respect to the source of exposure (bank book and trading book), their currency and time period in accordance with the repricing date grid used in the Bank,
- the value at risk limits, determined for the bank and trading books separately, assuming a 1-day position maintenance horizon and the confidence level of 99%. Value at risk is determined by the variance – covariance method. The Bank does not have any open interest rate positions on instruments with non-linear risk profile,
- monthly, quarterly and annual maximum loss limits.

All limits associated with interest rate risk are monitored by the Risk Management Department. Risk is measured on a daily basis. Daily reports on the utilization of different risk limits are distributed in an electronic format to Bank's business units and the Members of the Board supervising them.

The Asset – Liability Committee (ALCO) is responsible for periodical control of the interest rate risk management. During its monthly meetings ALCO evaluates the levels of risk to which the Bank is exposed to and, if necessary, instructs the relevant units to take appropriate steps to mitigate it.

Risk management (cont.)

The Bank maintains separate bank and trading portfolios. According to the Regulation of the Parent Entity's Management Board on detailed principles for separating the trading portfolio, it includes:

- transactions concluded with an intention to obtain financial gains in the short term as a result of changes in the market parameters, in particular foreign exchange rates and interest rates;
- all transactions hedging the risk on transactions included in the trading portfolio;
- internal hedging instruments, which mitigate bank portfolio risks.

Due to the fact that the risks on transactions concluded are not uniform, sub-portfolios within the trading portfolio had to be separated, which allows to monitor positions and limits on individual types of transactions.

For the purposes of capital requirement calculation regarding the trading book exposure to interest rate risk, the Bank uses the method of an average, updated period of return. Transactions not classified to the trading portfolio are included in the bank portfolio.

The following table presents the level of Bank's exposure to interest rate risk, for the bank book and the trading book separately, measured in terms of the amount of the change in the fair value resulting from a 1 base point increase in market interest rates. The values in different maturity brackets are presented as absolute values in order to present the general level of exposure to interest rate risk, irrespective of the direction of a given position.

	31 December 2017				31 December 2016			
	Min.	**Max.**	**Average**	**As at 31 December**	**Min.**	**Max.**	**Average**	**As at 31 December**
Bank book								
< 1Y	0	286	101	32	26	374	97	34
1 – 3Y	0	147	20	67	1	232	102	56
> 3Y	3	125	31	124	17	30	24	27
Trading book								
< 1Y	0	53	28	8	0	31	10	2
1 – 3Y	0	32	13	21	0	65	13	7
> 3Y	0	185	29	46	0	81	28	16

The following table presents the level of Bank's exposure to interest rate risk, for the bank book and the trading book separately, measured using the value at risk, in accordance with the model parameters defined in the system of limits and described above.

	31 December 2017				31 December 2016
	Min.	**Max.**	**Average**	**As at 31 December**	**As at 31 December**
Bank book	5 067	13 426	10 195	7 991	6 238
Trading book	226	1 770	687	606	474

Risk management (cont.)

The Bank also calculates the value of Earnings-at-Risk, which shows the sensitivity of net interest income in the year time horizon, assuming immediate and identical for all the currencies change in market interest rates by 100 basis points, continuing throughout the duration of the simulation. The result of the measurement as the end of 2017 showed the impact on interest result of PLN 108 244 thousand, which is 1.5% of the own funds of the Bank included in the calculation of the capital adequacy ratio compared to PLN 150 975 thousand for the end of 2016 year, representing 2.5% of the funds.

The following table presents an analysis of asset, liabilities and off-balance sheet items sensitivity to changes in interest rates. The table presents the carrying amounts of the Bank's assets and liabilities for the earlier of the two dates: change of the contractual interest rate date or due date.

Valuation of derivative financial instruments, used mainly to reduce the Bank's exposure to changes in interest rates, is presented under "Derivative financial instruments" in "Assets" and "Liabilities".

Risk management (cont.)

The Bank's exposure to interest rate risk									
31 December 2017	**Non-interest bearing**	**1M**	**3M**	**6M**	**12M**	**2Y**	**5Y**	**>5Y**	**Total**
Assets									
Cash and balances with the Central Bank	779 834	536 156	0	0	0	0	0	0	**1 315 990**
Amounts due from banks	0	76 292	0	0	0	26 911	0	0	**103 203**
Financial assets held for trading	0	248 655	66 737	330 553	207 536	17 155	4 761	355 006	**1 230 403**
Derivative financial instruments	537 524	0	0	0	0	0	0	0	**537 524**
Investment securities	49 212	10 518 057	30 029	1 363 238	533 494	706	153 650	0	**12 648 386**
Loans and receivables granted to customers	0	11 440 185	15 930 118	3 696 808	544 164	388 835	416 679	0	**32 416 789**
Other financial assets	201 942	0	0	0	0	0	0	0	**201 942**
Liabilities									
Amounts due to banks and other monetary institutions	0	2 904 673	2 864 760	0	0	0	10 432	0	**5 779 865**
Derivative financial instruments	561 536	0	0	0	0	0	0	0	**561 536**
Amounts due to customers	0	15 850 715	10 980 410	4 216 195	2 682 072	660 894	1 970	0	**34 392 256**
Subordinated liabilities	0	0	209 095	855 764	0	0	0	0	**1 064 859**
Other financial liabilities	425 962	0	0	0	0	0	0	0	**425 962**
Off-balance-sheet items									
Guarantee liabilities granted	2 118 321	0	0	0	0	0	0	0	**2 118 321**
Financial liabilities granted	6 900 704	0	0	0	0	0	0	0	**6 900 704**

Risk management (cont.)

The Bank's exposure to interest rate risk

31 December 2016	Non-interest bearing	1M	3M	6M	12M	2Y	5Y	>5Y	Total
Assets									
Cash and balances with the Central Bank	667 808	1 064 061	0	0	0	0	0	0	**1 731 869**
Amounts due from banks	0	315 252	0	0	0	0	0	0	**315 252**
Financial assets held for trading	0	7 665 025	6 494	266 986	632	106 076	2 072	57	**8 047 342**
Derivative financial instruments	466 720	0	0	0	0	0	0	0	**466 720**
Investment securities	45 540	5 979 963	26 331	1 896 120	0	0	0	0	**7 947 954**
Loans and receivables granted to customers	0	12 765 496	18 726 103	2 051 677	177 650	11 548	135 531	0	**33 868 005**
Other financial assets	177 596	0	0	0	0	0	0	0	**177 596**
Liabilities									
Amounts due to banks and other monetary institutions	0	3 302 165	4 120 809	0	0	0	10 432	0	**7 433 406**
Derivative financial instruments	1 546 175	0	0	0	0	0	0	0	**1 546 175**
Amounts due to customers – current	0	14 911 526	14 496 966	3 880 318	2 528 967	535 323	8 367	340	**36 361 807**
Subordinated liabilities	0	0	332 096	0	0	0	0	0	**332 096**
Liabilities from issuance on debt securities	0	0	0	501 830	0	0	0	0	**501 830**
Other financial liabilities	417 288	0	0	0	0	0	0	0	**417 288**
Off-balance-sheet items									
Guarantee liabilities granted	1 928 262	0	0	0	0	0	0	0	**1 928 262**
Financial liabilities granted	7 136 072	0	0	0	0	0	0	0	**7 136 072**

Risk management (cont.)

44.4. Operational risk

Operational risk is defined as the risk of incurring a loss due to ill-adjusted or unreliable processes, people or systems, or due to external events. This definition includes legal risk, but it does not include strategic risk or reputation risk.

For the purposes of calculating the capital requirement for operational risk, the Bank uses the Standardized Approach method, which determines both the method for calculating the capital requirement and the operational risk management requirements.

The aim of the operational risk management is to increase the safety of the Bank's operations by implementing effective mechanisms for the identification, assessment and quantification, mitigation, monitoring and reporting operational risk.

The Bank's operational risk management policy should reflect the Bank's operational risk profile and ensure that adequate measures are taken to:

- control the risk at an acceptable level adequate to the Bank's size and the nature of its operations;
- eliminate the reasons and the adverse effects of operational events;
- minimize losses incurred as a result of operational events;
- improve the effectiveness of processes;
- shape the awareness of operational risk.

Bank's operational risk appetite is defined as:

- the value of internal capital allocated to operational risk;
- assumed value of operating losses related to operational risk events equal to losses identified in the Bank within 12 months.

The main principles of operational risk management in the Bank are as follows:

- the operational risk management is based on a three-line defense model;
- the operational risk owners are the managers of business lines and the individual organizational units;
- the operational risk management process is supervised by the Operational Risk Steering Committee;
- there is an independent operational risk management function in place at the Risk Management Department;
- the internal audit function performs an independent review of the operational risk management procedures and process;
- operational risk data is collected regularly;
- exposures are estimated and operational risk is reported;
- actions are taken to reduce operational risk to an acceptable level.

Risk management (cont.)

In accordance with the Operational Risk Management Policy, the following methods and tools for operational risk management are used in the Bank:

- collecting information on operational events,
- monitoring of early warning indicators,
- scenario analysis for events characterized by low frequency and high severity,
- assessment of operational risk for the key operational risk areas,
- operational risk reporting ensuring regular and timely flow of information to relevant decisive bodies.