This document is a free translation of the Polish original. Terminology current in America has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Consolidated financial statements for the year 2017 RAIFFEISEN BANK POLSKA S.A. CAPITAL GROUP

The Management Board presents the consolidated financial statements of Raiffeisen Bank Polska S.A. Capital Group 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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS 5
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 6
CONSOLIDATED STATEMENT OF FINANCIAL POSITION 7
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 8
CONSOLIDATED STATEMENT OF CASH FLOWS 10
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 12
1. GENERAL INFORMATION 12
2. SIGNIFICANT ACCOUNTING POLICIES 16
2.1. Basis of preparation of the financial statements 16
2.2. Statement of compliance 17
2.3. Items in foreign currencies 17
2.4. Consolidation 18
2.5. Determining the financial result 19
2.5.1. Interest income and expense 19
2.5.2. Fee and commission income and expense 19
2.5.2.1. Fee and commission income and expense regarding insurance 20
2.5.3. Net income from financial instruments measured at fair value and from foreign exchange result 22
2.5.4. Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items 23
2.5.5. Other operating income and expenses 23
2.5.6. Other profit / (loss) components 23
2.5.6.1. Employee benefits 23
2.5.6.2. Dividend income 23
2.6. Recognition, presentation and valuation of financial assets and liabilities 23
2.7. Financial assets 24
2.7.1. Financial assets measured at fair value through profit or loss 24
2.7.2. Available for sale financial assets 25
2.7.3. Financial assets held to maturity 25
2.7.4. Loans and receivables 26
2.8. Reclassification of financial assets 27
2.9. Impairment of financial assets 27
2.9.1. Assets measured at amortized cost 29
2.9.1.1. Individual impairment assessment 30
2.9.1.2. Collective impairment assessment 31
2.9.2. Impairment of assets available for sale 34
2.10. Repo and reverse repo transactions 35
2.11. Derivative financial instruments 36
2.11.1. Recognition and measurement 36
2.11.2. Embedded derivatives 36
2.11.3. Hedge accounting 37
2.11.3.1. Criteria 37
2.11.3.2. Fair value hedge 38
2.11.3.3. Cash flow hedges 38
2.11.3.4. Discontinuing hedge accounting 39
2.12. Financial liabilities 39
2.13. Contingent liabilities 40
2.14. Method of determining the fair value and amortized cost 41
2.15. Derecognizing financial instruments from the statement of financial position 42
2.16. Intangible assets 42
2.16.1. Costs of completed development projects 44
2.16.2. Other intangible assets 44
2.17. Property, plant and equipment 44
2.18. Leases 46

Table of contents

2.19. Cash and cash equivalents ... 47
2.20. Provisions ... 47
2.21. Equity ... 48
2.22. Income tax expense ... 48
2.23. Other ... 49
2.24. Discontinued operations ... 50
2.25. New standards, interpretations and revisions to published standards ... 51
2.25.1. Standards and Interpretations which have been published and applied by the Group as of 1 January 2017, to the extend relating to the Group ... 51
2.25.2. Standards and Interpretations which have been published but are not yet binding and have not been adopted early by the Group ... 52
3. SIGNIFICANT ESTIMATES ... 74
3.1. Impairment of financial assets ... 75
3.2. Impairment of the loan portfolio ... 75
3.3. Financial instruments valuation methods ... 77
3.4. Provisions calculation ... 77
3.5. Intangible assets with an indefinite useful life recognized as a result of an acquisition of Polbank EFG S.A. – impairment test ... 78
3.6. Useful life and impairment of property, plant and equipment and other intangible assets ... 78

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS ... 80

4. SEGMENT INFORMATION ... 80
5. NET INTEREST INCOME ... 85
6. NET PROVISIONING FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS FOR OFF-BALANCE SHEET ITEM ... 86
7. NET FEE AND COMMISSION INCOME ... 88
8. NET INCOME FROM INSTRUMENTS MEASURED AT FAIR VALUE AND FROM FOREIGN EXCHANGE RESULT ... 89
9. GENERAL ADMINISTRATIVE EXPENSES ... 90
9.1. Salaries, wages and other employee benefits ... 90
9.2. Other administrative expenses ... 90
10. OTHER OPERATING INCOME AND EXPENSE ... 91
11. INCOME TAX EXPENSE ... 92
12. DICONTINUED OPERATIONS ... 95
13. EARNINGS PER SHARE ... 96
13.1. Profit per share ... 96
13.2. Diluted profit per share ... 97

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION ... 98

14. CASH AND BALANCES WITH THE CENTRAL BANK ... 98
15. AMOUNTS DUE FROM BANK ... 98
16. DERIVATIVE FINANCIAL INSTRUMENTS AND EMBEDDED INSTRUMENTS ... 99
16.1. Derivative financial instruments ... 99
16.2. Forward sale agreement of loan portfolio ... 100
17. HEDGE ACCOUNTING ... 102
18. FINANCIAL ASSETS HELD FOR TRADING ... 105
19. INVESTMENT SECURITIES ... 105
20. LOANS AND ADVANCES TO CUSTOMERS ... 106
21. INTANGIBLE ASSETS ... 108
22. PROPERTY, PLANT AND EQUIPMENT ... 110
23. OTHER ASSETS ... 112
24. AMOUNTS DUE TO BANKS AND OTHER MONETARY INSTITUTIONS ... 113
25. AMOUNTS DUE TO CUSTOMERS ... 113
26. SUBORDINATED LIABILITIES ... 113
27. LIABILITIES FROM DEBT SECURITIES ISSUED ... 114

Table of contents

28. Other liabilities ... 115
29. Provisions ... 115
30. Equity ... 117

OTHER NOTES ... 119

31. Contingent liabilities ... 119
32. The Group as a lessee ... 120
33. Pledged assets and of limited disposability ... 120
34. Sale of receivables ... 121
35. Custody activities ... 121
36. Supplementary information to statement of cash flows ... 121
37. Net income from financial instruments ... 124
38. Fair value of assets and liabilities ... 124
39. Offsetting of financial assets and liabilities ... 131
40. Transactions with related parties ... 133
41. Events after the reporting date ... 136
42. The nature and scope of risk associated with financial instruments ... 137
43. Credit risk ... 143
44. Liquidity risk ... 165
45. Other market risks ... 168
45.1. Market risk ... 168
45.2. Currency risk ... 168
45.3. Interest rate risk for cash flows and fair value ... 171
45.4. Operational risk ... 176

Consolidated statement of profit or loss

	Note	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
Continuing operations			
Interest income		1 562 804	1 590 089
Interest expense		-458 278	-570 902
Net interest income	5	**1 104 526**	**1 019 187**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	6	-301 806	-176 177
including Proceeds from sale of receivables and other		66 995	12 754
Fee and commission income		655 130	668 987
Fee and commission expense		-68 451	-81 088
Net fee and commission income	7	**586 679**	**587 899**
Net income from financial instruments measured at fair value and net foreign exchange result	8	54 683	110 210
Dividend income		260	120
General administrative expenses	9	-1 040 341	-1 122 912
Other operating income	10	56 144	26 149
Other operating expenses	10	-158 696	-203 926
Tax on financial institutions		-132 505	-148 776
Profit before tax		**168 944**	**91 774**
Income tax expense	11	-93 326	-88 738
Net profit from continuing operations		**75 618**	**3 036**
Net profit from discontinued operations	12	**0**	**11 720**
Net profit		**75 618**	**14 756**
Profit attributable to the equity holders of the Parent Entity, including:		**75 618**	**14 756**
Profit from continuing operations		**75 618**	**3 036**
Profit from discontinued operations		**0**	**11 720**
Weighted average number of ordinary shares (in units)	13	225 668 340	225 668 340
Profit attributable to the Parent Entity equity holders per one ordinary share (in PLN)	13	0,3	0,1
Profit from continuing operations per ordinary share (in PLN)		0,3	0,0
Profit from discontinued operations per ordinary share (in PLN)		0,0	0,1
Weighted average number of diluted shares (in units)	13	225 668 340	225 668 340
Profit attributable to the Parent Entity equity holders per diluted share (in PLN)	13	0,3	0,1
Profit from continuing operations per diluted share (in PLN)		0,3	0,0
Profit from discontinued operations per diluted share (in PLN)		0,0	0,1

Notes presented on pages 12-177 are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

	Note	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
Net profit from continuing operations		**75 618**	**3 036**
Net profit from discontinued operations		**0**	**11 720**
Other taxable income that may be reclassified to profit or loss, including:		**41 954**	**-41 388**
Valuation of cash-flow hedge derivatives, gross	30	21 293	8 860
Income tax on cash-flow hedge derivatives	30	-4 046	-1 683
Valuation of available for sale financial assets, gross	30	30 502	-59 957
Income tax on available for sale financial assets	30	-5 795	11 392
Total comprehensive income		**117 572**	**-26 632**
Total comprehensive income attributable to the Parent Entity shareholders		**117 572**	**-26 632**

Notes presented on pages 12-177 are an integral part of the consolidated financial statements.

Consolidated statement of financial position

Assets	Note	As at 31 December 2017	As at 31 December 2016
Cash and balances with Central Bank	14	1 315 990	1 731 869
Amounts due from banks	15	139 566	334 563
Financial assets held for trading	18	1 230 403	8 047 342
Derivative financial instruments	16	537 524	466 709
Investment securities	19	12 648 386	7 962 554
Loans and advances to customers	20	32 413 326	33 864 497
Intangible assets	21	264 524	383 083
Property, plant and equipment	22	88 146	118 228
Deferred tax assets	11	103 552	127 668
Other assets	23	233 177	221 460
Total assets		**48 974 595**	**53 257 973**

Liabilities and equity	Note	As at 31 December 2017	As at 31 December 2016
Amounts due to banks and other monetary institutions	24	5 779 885	7 433 406
Derivative financial instruments	16	561 536	1 546 166
Amounts due to customers	25	34 341 447	36 329 411
Subordinated liabilities	26	1 064 859	332 096
Liabilities from debt securities issued	27	0	501 830
Other liabilities	28	591 919	541 689
Current tax liabilities		10 794	63 963
Provisions	29	143 900	146 729
Total liabilities		**42 494 340**	**46 895 290**
Equity attributable to shareholders of the Parent Entity		**6 480 255**	**6 362 683**
Share capital	30	2 256 683	2 256 683
Supplementary capital		2 287 790	2 287 607
Other capital and reserves	30	1 074 443	1 002 489
Retained earnings		861 339	815 904
Total equity		**6 480 255**	**6 362 683**
Total liabilities and equity		**48 974 595**	**53 257 973**

Notes presented on pages 12-177 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

	Note	Share capital	Supplementary capital	Other capital and reserves	Retained earnings: Accumulated profit	Retained earnings: Net result for the year	Total equity attributable to owners of the Parent Entity	Total equity
As at 1 January 2017		**2 256 683**	**2 287 607**	**1 002 489**	**801 148**	**14 756**	**6 362 683**	**6 362 683**
Valuation of available for sale financial assets, net		0	0	24 707	0	0	24 707	24 707
Valuation of cash-flow hedge derivatives, net		0	0	17 248	0	0	17 248	17 248
Net profit for the year		0	0	0	0	75 618	75 618	75 618
Total comprehensive income		**0**	**0**	**41 954**	**0**	**75 618**	**117 572**	**117 572**
Transfer of net result to retained earnings		0	0	0	14 756	-14 756	0	0
Transactions with owners		**0**	**183**	**30 000**	**-30 183**	**0**	**0**	**0**
Transfer of net result to general banking risk reserve		0	0	30 000	-30 000	0	0	0
Transfer of net result to supplementary capital		0	183	0	-183	0	0	0
As at 31 December 2017	***30***	**2 256 683**	**2 287 790**	**1 074 443**	**785 721**	**75 618**	**6 480 255**	**6 480 255**

Notes presented on pages 12-177 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity (cont.)

	Note	Share capital	Supplementary capital	Other capital and reserves	Retained earnings		Total equity attributable to owners of the Parent Entity	Total equity
					Accumulated profit	Net result for the year		
As at 1 January 2016		**2 256 683**	**2 370 746**	**1 018 927**	**556 781**	**186 178**	**6 389 315**	**6 389 315**
Valuation of available for sale financial assets, net		0	0	-48 565	0	0	-48 565	-48 565
Valuation of cash-flow hedge derivatives, net		0	0	7 177	0	0	7 177	7 177
Net profit for the year		0	0	0	0	14 756	14 756	14 756
Total comprehensive income		**0**	**0**	**-41 388**	**0**	**14 756**	**-26 632**	**-26 632**
Transfer of net result to retained earnings		0	0	0	186 178	-186 178	0	0
Acquisition of shares fromnon-controlling interests		0	0	632	-632	0	0	0
Changes in the Group structure		0	-137 191	-682	137 873	0	0	0
Transactions with owners		**0**	**54 052**	**25 000**	**-79 052**	**0**	**0**	**0**
Transfer of net result to general banking risk reserve		0	0	25 000	-25 000	0	0	0
Transfer of net result to statutory supplementary capital		0	54 052	0	-54 052	0	0	0
As at 31 December 2016	*30*	**2 256 683**	**2 287 607**	**1 002 489**	**801 148**	**14 756**	**6 362 683**	**6 362 683**

Notes presented on pages 12-177 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

Operating activities	***Note***	**For the financial year ended 31 December 2017**	**For the financial year ended 31 December 2016**
Profit before tax		**168 944**	**146 930**
Adjustments:		**-323 914**	**521 724**
Depreciation and amortization	9	72 161	106 429
Impairment of tangible and intangible fixed assents and investement securities		-13 219	152 972
Unrealized foreign exchange differences		-411 740	276 559
Gains on sale of discontinued operations		0	-33 751
Gains on liqudation of the subsidiary		-1 408	0
Transfer of interest and dividend from investing and financing activities		-84 442	15 699
Loss on sale, liquidation of tangible and intangible fixed assets		114 733	10 778
Other adjustments		0	-6 963
Changes in operating assets and liabilities		**5 216 867**	**3 663 089**
Interbank placements, loans and advances to other banks	36	68 707	914 240
Financial assets held for trading	36	6 732 840	4 388 013
Derivative financial instruments	36	-1 192 258	-12 517
Loans and advances to customers	36	347 910	-1 372 273
Other assets		-12 713	20 152
Amounts due to banks and other monetary institutions	36	74 391	-266 944
Amounts due to customers	36	-1 634 074	-896 340
Other liabilities		50 301	148 326
Provisions		-2 845	-4 504
Dividends received		260	120
Income tax paid/received		-131 760	-138 584
Interest received		1 372 031	1 477 545
Interests paid		-455 923	-594 145
Net cash flow from operating activities		**5 061 897**	**4 331 743**

Consolidated statement of cash flows (cont.)

Investing activities	Note	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
Proceeds from sale of investment securities	19	20 536 055	1 452 524
Proceeds from sale of property, plant and equipment and intangible fixed assets		258	1 228
Proceeds from sale of shares in subsidiaries		16 008	695 000
Purchase of investment securities	19	-24 999 753	-5 531 972
Outflows from purchase of property, plant and equipment and intangible fixed assets		-51 973	-79 140
Decrease in cash and cash equivalents due to changes in Group structure		0	-419 236
Net cash flow from investing activities		**-4 499 405**	**-3 881 596**
Financing activities			
Inflows from subordinated liabilities and long-term bank loans		2 312 702	3 368 189
Outflows from repayment of subordinated liabilities and long-term bank loans		-2 880 127	-4 831 175
Outflows from purchase and repayment of interest on debt securities issued	27	-515 550	-15 390
Net cash flow from financing activities		**-1 082 975**	**-1 478 376**
Net decrease in cash and cash equivalents		**-520 483**	**-1 028 229**
Cash and cash equivalents at beginning of the year	36	1 884 977	2 913 206
Cash and cash equivalents at the end of the year	**36**	**1 364 494**	**1 884 977**

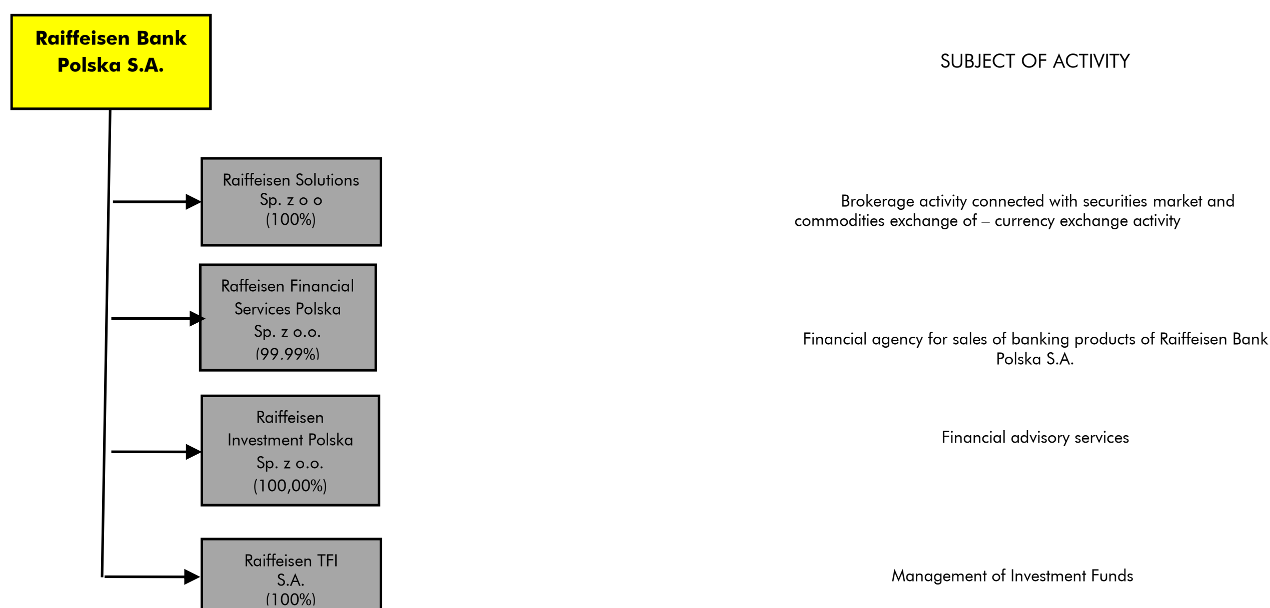
Notes to the consolidated financial statements

1. General information

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

The consolidated 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 Raiffeisen Bank Polska S.A. Capital Group is composed of the following entities as of 31 December 2017:



Notes to the consolidated financial statements (cont.)

Entities consolidated on a full consolidation basis:

- **Raiffeisen Bank Polska S.A. („Parent Entity")**
- **Raiffeisen-Leasing Polska S.A.** (till 31 March 2016)
- **Raiffeisen Insurance Agency Sp. z o.o.** (till 31 March 2016)
- **Raiffeisen-Leasing Service Sp. z o.o.** (till 31 March 2016)
- **Raiffeisen-Leasing Real Estate Sp. z o.o.** (till 31 March 2016)
- **Raiffeisen Financial Services Polska Sp. z o.o.**
- **Raiffeisen Investment Polska Sp. z o.o.**
- **Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.**
- **Raiffeisen Solutions Sp. z o.o.**

In addition, the Group consolidated special purpose entity ROOF Poland Leasing 2014 DAC, located in Ireland, through which the Group concluded securitization of leasing debts. This entity was consolidated because the Parent Entity controls it, without an equity interest in this entity.

The special purpose entity ROOF Poland Leasing 2014 DAC was consolidated till 31 March 2016, until the loss of control due to the sale of 100% of the shares in Raiffeisen-Leasing Polska S.A. through which the Parent Entity controlled the special purpose entity.

The company Leasing Poland Sp. z o.o. has not been consolidated due to its insignificance.

The Group operates in retail banking, corporate banking and investment banking as well as in factoring area in Poland and employed 4 646 employees as at 31 December 2017 (5 061 employees as at 31 December 2016).

The terms used in these consolidated financial statements are defined as follows:

Bank or Parent Entity – Raiffeisen Bank Polska S.A.

Subsidiaries – Raiffeisen-Leasing Polska S.A., Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen Financial Service Polska Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o., Raiffeisen-Leasing Real Estate Sp. z o.o., Leasing Poland Sp. z o.o., Raiffeisen Investment Polska Sp. z o.o., Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A., Raiffeisen Solutions Sp. z o.o.,

RBI – Raiffeisen Bank International AG, the ultimate Parent Entity for the Bank,

Raiffeisen Regional Banks - the ultimate parent entity, (Banks are parties to the RBI Consortium Agreement),

Group or Capital Group – Raiffeisen Bank Polska S.A. Capital Group,

Notes to the consolidated financial statements (cont.)

RBI Group – the Raiffeisen International AG (Group RBI), which includes, among others, banks from Central and Eastern Europe controlled by RBI, foreign branches of RBI, Austrian financial institutions and other supporting institutions.

Approval of these consolidated financial statements

The Parent Entity's Management Board approved these consolidated financial statements on 6 March 2018.

Information of Shareholders of the Parent Entity

The majority shareholder of Raiffeisen Bank Polska S.A. is Raiffeisen Bank International AG, which was created from separated areas of Raiffeisen Zentralbank Österreich AG (RZB) and Raiffeisen International Bank-Holding AG (RI). Raiffeisen Regional Banks holds a 58,8% stake in RBI as at 31 December 2017. The rest of the equity is in free float on the Vienna Stock Exchange, where RBI is listed since 2005. RBI is the Parent Entity of Raiffeisen Bank Polska SA and holds a 100% share.

Changes within the Group structure in the current reporting period

In the period from 1 January 2017 till 31 December 2017 there were following changes within the Group structure.

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.

As at 31 December 2017 the Parent Entity'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 consolidated financial statements (cont.)

As at 31 December 2017, the Parent Entity'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 supervision dated 11 May 2017 and fulfill requirements of article 22aa of Banking Law dated 29 August

Notes to the consolidated financial statements (cont.)

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 consolidated financial statements of the Group 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 consolidated financial statements have been prepared on a going concern basis using the assumption that the Group 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 consolidated financial statements of the Group were prepared on a assuring its comparability.

The consolidated financial statements of the Group 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 consolidated financial statements of the Group have been presented in note 2.25.1 to the consolidated financial statements.

The consolidated 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 2.25.2 to the consolidated financial statements).

During the period covered by the financial statements the Group 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 consolidated financial statements (cont.)

The consolidated financial statements of the Group 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 consolidated financial statements ('consolidated financial statements') of the Group 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 these consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Polish zlotys (PLN), which is the functional currency of the Group.

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 consolidated financial statements (cont.)

2.4. Consolidation

Subsidiaries are entities in case of which the Parent Entity exercises control over them.

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

- 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.

Subsidiaries are consolidated using the full consolidation method from the moment the Group takes full control over them. Subsidiaries cease to be consolidated when the Group loses control over them. The subsidiaries' accounting policies comply with the Group accounting policies.

In the period covered by these consolidated financial statements no contract provisions requiring from the Group to financially support the consolidated special purpose entities took place, including events or circumstances exposing the Group to potential losses.

In the period from the date of the Parent Entity assumed control over the subsidiaries to the date of its ceasing to have control, the subsidiaries are consolidated under the full consolidation method, which consists of summing up particular items of the statements of financial position and the profit or loss statement of the Parent Entity and the subsidiaries in full, and making appropriate consolidation eliminations and adjustments.

Intercompany transactions and balances (mutual receivables and liabilities, and other similar settlements between the consolidated entities), and unrealized gains and losses or revenues and costs arising as a result of intercompany transactions are eliminated. Dividends accrued or paid by subsidiaries to the Parent Entity and to other consolidated entities are also eliminated as well as the carrying value of shares held by the Parent Entity in subsidiaries, and the equity of those entities as at the date of their acquisition.

The acquisition of subsidiaries (taking control over them) by the Group is accounted for under the acquisition method.

On the acquisition date all the identifiable acquired assets and liabilities are recognized, as well as all non-controlling interests in the acquired entity, and measured at fair value as at the acquisition date.

The sum of:

- the amount paid (measured at fair value as at the acquisition date),
- the total of all non-controlling interests in the acquired entity (measured at fair value or at the proportionate share of the non-controlling interests in identifiable net assets of the acquired entity); and

Notes to the consolidated financial statements (cont.)

- the share in equity of the acquired entity, which had previously been owned by the Parent Entity (measured at fair value at the acquisition date) – if the merger is conducted in stages

is compared to the net value of identifiable acquired assets and liabilities. If the difference between the said components is an excess, it is recognized as goodwill, otherwise the difference is recognized directly in the profit or loss statement.

In the process of merging with other entities, goodwill and other intangible assets may arise – the respective accounting policies are discussed in note 2.16. to the consolidated financial statements.

2.5. Determining the financial result

2.5.1. Interest income and expense

The Group recognizes interest income and expense arising from financial assets if it is probable that future economic benefit will flow to the Group 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 Group.

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.

2.5.2. 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 2.5.1 to the financial statement.

Notes to the consolidated financial statements (cont.)

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.

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

2.5.2.1. Fee and commission income and expense regarding insurance

Income from bancassurance

The Group generates revenues from the „bancassurance", i.e. selling of insurance products through the Group's distribution channels. In order to reflect the economic substance and the proper revenue and expense recognition regarding offered insurance products, the Group 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 Group with an insurance product,

2) an insurance product is offered by the Group only with a financial instrument, i.e. it is not possible to purchase an insurance product in the Group, 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 Group's portfolio,

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

Notes to the consolidated financial statements (cont.)

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

d) if there is no requirement of the Group 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 Group together with financial instrument,

e) the number of resignations and returned commissions – divided into financial instruments according to the Group'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 Group'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 Group 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 Group 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 Group to provide additional services, other than concluding an insurance agreement, the Group 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 Group is obligated to provide services arising from the offered insurance product. This period is highly correlated with the period when the Group 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 Group 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

Notes to the consolidated financial statements (cont.)

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.

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 Parent Entity verifies established input parameters and key assumptions in the bancassurance model (excluding provisions for returns, which are estimated quarterly). Additionally, the Group 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.

2.5.3. 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

Notes to the consolidated financial statements (cont.)

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 consolidated financial statements).

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).

2.5.4. 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 2.9. to the consolidated financial statements) and proceeds from sale of Group's receivables.

2.5.5. Other operating income and expenses

Other operating income comprises mainly amounts received from sales of services unrelated to the Group's core operations of the Group'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.

2.5.6. Other profit / (loss) components

2.5.6.1. 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 Group calculates provision for unused holiday leave. These provisions are presented in Provisions.

2.5.6.2. Dividend income

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

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

All financial instruments are recognized using settlement date accounting, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases

Notes to the consolidated financial statements (cont.)

or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Offsetting of financial assets and liabilities is performed when the Group has a valid and legally enforceable right to set-off that is not contingent on a future event. Additional requirement is that the Group 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 39 to the consolidated financial statements).

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

2.7. 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 Group 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.

2.7.1. 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 Group's documented risk management policies or investment strategy and in accordance with the adopted internal reporting system on the portfolio condition;

Notes to the consolidated financial statements (cont.)

- 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.

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 consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Group 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.

2.7.2. 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".

2.7.3. 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 Group's management has the positive intention and ability to hold to maturity and which do not meet the definition of loans and receivables.

Notes to the consolidated financial statements (cont.)

Due to the Group 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 Group sell such assets, then all assets from the respective category would be reclassified to available for sale financial assets and for the following two consecutive financial years the Group is not allowed to classify any financial assets as held to maturity.

Held to maturity financial assets are recognized in the consolidated 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 Group 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 consolidated profit or loss statement.

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

2.7.4. 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 Group intends to sell immediately or in the near term (financing granted by the Group 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 Group 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 Group 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.

Notes to the consolidated financial statements (cont.)

A financial asset is derecognized from the consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Group 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 Group does not expect any further cash flows from the financial asset.

2.8. Reclassification of financial assets

The Group 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 Group has the intention and ability to hold the asset during the foreseeable future or until its maturity. The Group 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 2.7.3. to the consolidated 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 Group 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 consolidated 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.

2.9. Impairment of financial assets

At each balance sheet date, the Group 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.

Notes to the consolidated financial statements (cont.)

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 Group defined the following loss events catalogue, which reflects the operating profile of the Group.

For retail portfolio the Group 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 Group,
- 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 Group 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,

Notes to the consolidated financial statements (cont.)

- questioning of the balance sheet exposure by the client in court,
- Group'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),
- 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 Group,
- for Financial Institutions – loss of license,
- for governments and central banks – payment moratorium.

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

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

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 Group 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.

2.9.1. 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.

Notes to the consolidated financial statements (cont.)

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.

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 Parent Entity 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.

2.9.1.1. 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 Parent Entity and the assumptions related to the results of the borrower’s financial situation assessment.

Notes to the consolidated financial statements (cont.)

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 Group does not identify any objective impairment triggers for an individually assessed financial assets' component or impairment triggers were identified, but based on individual 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.

2.9.1.2. 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 Group 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 Group 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)

Notes to the consolidated financial statements (cont.)

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).

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 Group determines the LGD parameter for each exposure group.

The most important information on the key assumptions and methods of determining by the Group 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.

Notes to the consolidated financial statements (cont.)

For exposures to corporate and financial institutions, the Parent Entity 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 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 Parent Entity (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 Parent Entity to recover its receivables, including the percentage of clients who have settled the outstanding balance due to the Parent Entity in a period of 12 months after the impairment identification. The estimation is performed on the portfolio of accounts for which the Parent Entity 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 Parent Entity 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 Group 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 consolidated 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 Group 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 Group 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.

2.9.2. 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 consolidated 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 consolidated financial statements (cont.)

fair value (net of all respective impairment losses which had been previously recognized in consolidated 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 consolidated 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 consolidated profit or loss statement, the impairment loss has to be reversed and the amount of the reversal is recognized through the consolidated profit or loss.

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.

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 Group assesses the degree of risks and rewards related to the asset that remain within the Group. 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.

Notes to the consolidated financial statements (cont.)

2.11. Derivative financial instruments

2.11.1. Recognition and measurement

Derivative instruments are classified as held for trading and presented separately in the consolidated 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 consolidated 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.

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.

Notes to the consolidated financial statements (cont.)

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 consolidated 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 Group includes instruments embedded in structured instruments.

2.11.3. Hedge accounting

The Group 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 Group uses fair value hedges and cash flow hedges.

2.11.3.1. Criteria

The Group 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,
- 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.

Notes to the consolidated financial statements (cont.)

The Group 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 Group'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 Group 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 consolidated 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 consolidated 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 consolidated 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".

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 consolidated profit or loss statement.

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in consolidated other comprehensive income concerning the part including the effective part of the hedge. Amounts recognized directly in consolidated other comprehensive income are transferred to the consolidated profit or loss statement in the same period or periods in which the planned hedged transaction affects the consolidated profit or loss statement. The ineffective part of a hedge is recognized in

Notes to the consolidated financial statements (cont.)

the consolidated 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 Group 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 Group 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 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.

Notes to the consolidated financial statements (cont.)

The Group 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 consolidated 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 Group concludes transactions which at the moment of the conclusion are not recognized in the consolidated 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 Group entities, or
- a current commitment which arises as a result of past events, but is not recognized in the consolidated 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 Group'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. Such financial guarantees are given by the Group 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 Group'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

Notes to the consolidated financial statements (cont.)

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 Groups' entities.

Within off-balance sheet exposures the Group 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 Group 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 Group 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 Group 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.

After initial recognition the Group 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.

Notes to the consolidated financial statements (cont.)

2.15. Derecognizing financial instruments from the statement of financial position

A financial asset is derecognized from the consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the financial asset to another entity. The transfer takes place when the Group transfers the contractual rights to receive cash flows from the asset or when the Group 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 Group.

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

- if the Group 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 Parent Entity or those which arose during the transfer,
- if the Group 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 Group 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 Group 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 consolidated statement of financial position and at the same time all rights and obligations retained by the Group or arising during the transfer are separately recognized as assets or liabilities.

The Group 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.

2.16. Intangible assets

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

The Group includes in Intangible assets specifically:

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

Notes to the consolidated financial statements (cont.)

Till 31 March 2017 the Group 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 Group, 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 Group's employees, in respect of the software purchased or manufactured under the given IT project, incurred exclusively in connection with its adaptation to the Group'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).

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.

Notes to the consolidated financial statements (cont.)

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 Group'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 Group did not produce computer software for its own needs.

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 Group 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 10 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).

Notes to the consolidated financial statements (cont.)

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 Group 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 Group 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:

Leasehold improvements (in buildings or apartments)	12 years or in the term of the lease contract, depending which period is longer of the lease contract
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.

Notes to the consolidated financial statements (cont.)

2.18. Leases

The Group as the lessee

The Group is a party to lease contracts on the basis of which it accepts third party fixed assets for use over an agreed period. The Group 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 Group'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 Group 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 Group. 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.

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.

The Group as the lessor

The lease agreements under which the Group retains the entire risk and benefits resulting from possession of asset are classified as operating lease agreements. Initial direct costs incurred in connection with negotiations of the operating lease contracts increase the balance-sheet value of the leased asset and are recognized on the same basis as revenues from the lease. Conditional lease payments are recognized as income in the period, in which are due.

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. For finance leases the leased asset is no longer recognized in the consolidated statement of financial position, whereas in finance lease receivables and loans and advances to customers is recognized the amount of receivables equaled net lease investment. Net lease investment is the gross lease investment

Notes to the consolidated financial statements (cont.)

discounted by the lease interest rate. Lease income is recognized through the lease period using the net investment method (prior taxation). They are recognized as interest income.

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 Group 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 Group has to meet in accordance with a contractual or constructive obligation and which lead to using assets already possessed, or future assets of the Group. 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 Group (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 Group’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:

- the Group 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,

Notes to the consolidated financial statements (cont.)

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 Group 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 Group 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 Group'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 Parent Entity.

Share capital comprises currently registered share capital. The amount of share capital presented in the financial statements reflects the share capital of the Parent Entity 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 Parent Entity 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 consolidated 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 Group 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 consolidated profit or loss statement or (in respect of the effects of measurement of financial assets recognized in other comprehensive income) in the consolidated statement of comprehensive income, under other comprehensive income. The Group 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 Group 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;
- unsettled clients' transactions.

Notes to the consolidated financial statements (cont.)

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.

2.24. Discontinued operations

A discontinued operation is a component of the Group's business which constitutes a separate line of business or a geographical area of operations, which was sold, made available for sale or is to be disposed of, or is a subsidiary acquired exclusively with a view to re-sale. Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as held for sale, the comparative figures in the statement of profit or loss, are restated as if the operation had been discontinued from the beginning of the comparative period.

Notes to the consolidated financial statements (cont.)

2.25. New standards, interpretations and revisions to published standards

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

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 consolidated financial statements of the Group.
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 consolidated financial statements of the Group.

Notes to the consolidated financial statements (cont.)

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

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 Group's consolidated 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 Group's activity IFRS 14 does not apply.

Notes to the consolidated 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 Amendements 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 Group analyzed the impact of the new IFRS 15 Revenue from contracts with counterparties. The above changes will not have impact on the consolidated financial statements of the Group.

Notes to the consolidated 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 Group analyzed the impact of the new IFRS 15 Revenue from contracts with counterparties. The above changes will not have impact on the consolidated financial statements of the Group.

Notes to the consolidated 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 Group does not expect the Amendments to have a material impact on its consolidated 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 Group. At the date of these consolidated financial statements presentation Group is not able to assess impact of the Standard on the consolidated financial statements.

Notes to the consolidated 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 Group's consolidated 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 Group's consolidated 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 Group's consolidated financial statements.

Notes to the consolidated 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 Group's consolidated 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 Group's consolidated 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 Group's consolidated 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 consolidated 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 Group's consolidated 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 Group's consolidated 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 Group does not expect the Amendments to have a material impact on its consolidated financial statements once applied.
Annual Improvements to IFRS Standards 2015-2017	December 2017	Financial year starting on or after 1 January 2019		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

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				of a business that is a joint operation, the entity does not remeasure previously held interests in that business - 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 Group does not expect the Amendments to have a material impact on its consolidated 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 Group does not expect the Amendments to have a material impact on its consolidated 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

Notes to the consolidated financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				remainder of the reporting period after the plan change. So far, IAS 19 did not 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 Group does not expect the Amendments to have a material impact on its consolidated financial statements once applied.

In conclusion, the Management of the Group does not expect that the introduction of these standards and interpretations to have any material impact on the Group'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 Group 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 consolidated financial statements (cont.)

Impact of IFRS 9 on Group's financial statements

The Group 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 Group'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	861 339	-10 822	-520 479	102 432	432 469

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 27 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 Group 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 consolidated 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 Group 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 Group 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 consolidated 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 Group, 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 Group 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 Group 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 consolidated 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, Group assessed that:

Notes to the consolidated 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 Group 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 Group'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 Group 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 Group'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.

Hedge accounting

IFRS 9 grants accounting options for hedge accounting. The Group 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.

Notes to the consolidated financial statements (cont.)

Impairment

The Group 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 Group 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 Group. 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 Group 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 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;

Notes to the consolidated financial statements (cont.)

- 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 Group 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.

Significant increase in credit risk

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

Notes to the consolidated financial statements (cont.)

Quantitative criteria

The Group 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.

Qualitative criteria

The Group 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;

Notes to the consolidated financial statements (cont.)

- 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.

Low credit risk

The Group 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 Group 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.

Notes to the consolidated financial statements (cont.)

- 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 Group;
- Client questions the obligation in the court proceeding;
- Group 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.

Notes to the consolidated financial statements (cont.)

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;
- 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.

Notes to the consolidated financial statements (cont.)

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 Group 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.

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.

Notes to the consolidated financial statements (cont.)

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 Group 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 Group 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.

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 Group considers these forecasts to represent its best estimate of the possible outcomes.

Notes to the consolidated financial statements (cont.)

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 Group 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

The Group 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 Group 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 Group 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 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

Notes to the consolidated financial statements (cont.)

actions undertaken by the Group, 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 Group 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 Group'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 Group's books (see the impairment triggers of a financial assets or a group of financial assets listed in note 2.9. to the consolidated 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.

Group 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 Parent Entity 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.

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 Parent Entity 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 Parent Entity uses internal and external sources of information. The Parent Entity 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 Parent Entity or the subsidiaries, or values estimated based on the Parent Entity or subsidiaries' 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 change 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 increased by 10%	Repayment by customers decreased by 10%
As at 31 December 2017			
No change in inflows from collateral	563 803	546 921	586 664
Inflows from collateral increased by 10%	541 575	524 801	
Inflows from collateral decreased 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 increased by 10%	522 488	517 093	
Inflows from collateral decreased 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 Parent Entity identifies impairment triggers set for specified group of assets (presented in note 2.9.1.2). 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 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

Notes to the consolidated financial statements (cont.)

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 Group 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 Group 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 Group. Provisions for restructuring costs are determined based on the best available estimates of direct costs resulting from the restructuring.

Notes to the consolidated financial statements (cont.)

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 Group.

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 Parent Entity 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 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

Notes to the consolidated financial statements (cont.)

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 Group 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 Group 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 consolidated statement of profit or loss

4. Segment information

The Group divided its operations and identified income and expenses, assets and liabilities to the following operating segments: "Retail Banking", "Corporate Banking", "Financial Institutions and Capital Markets", "Assets and Liabilities Management and Other Activities". This division reflects the internal regulations described in the rules for the classification of customers to specific segments in accordance with the Group's existing business model.

Retail Banking - segment includes products and services dedicated to individual clients and micro-companies. The segment comprises of sub-segments: mass and affluent customers, private banking and micro-companies.

Corporate Banking - segment, which includes sub-segments of large, medium and small corporates. It comprises the sale of products and services to businesses and other entities including companies and cooperatives, non-profit institutions, public sector entities and individual entrepreneurs who, due to the criteria for the distribution segments do not belong to the sub-segment of micro-companies.

Financial Institutions and Capital Markets - transactions, products and services dedicated to banking and non-banking financial entities, business services, and currency exchange offices, own activity conducted on own account classified as the Issuer's trading book.

Assets and Liabilities Management and Other Activities, which include assets, liabilities, and the result not attributable to the above segments, in particular:

- the assets, liabilities and result related to Assets and Liabilities Management activities, i.e. the management of liquidity, interest rate risk and currency risk of the Group and its investment portfolio,
- the result on refinancing of assets and liabilities which are not assigned to any of the above mentioned segments,
- intercompany eliminations on the Group's consolidated subsidiaries not assigned to discontinued operations.

The segmentation reflects the principles of classification of customers to specific segments in accordance with the Group's business model, which is based on subjective and financial criteria (such as turnover or net assets). Customer classification used in the segment reporting is different with respect to the classification of customers, which was used in the preparation of the other notes to the financial consolidated statements (in particular, note 20. "Loans and advances to customers" and 25. "Amounts due to customers") and is based on risk classes assigned to the particular clients according to the internal rules of the Group.

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

The activities of the fully consolidated subsidiaries have been assigned to the above-mentioned segments:

- **Raiffeisen-Leasing Polska S.A.** and **Raiffeisen Insurance Agency Sp. z o.o.** – discontinued operations in the year,
- **Raiffeisen Financial Services Polska Sp. z o.o.** - Retail Banking,
- **Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.** - Assets and Liabilities Management and Other Activities,
- **Raiffeisen Investment Poland Sp. z o.o.** and **Raiffeisen Solutions Sp. z o.o.** – Financial Institutions and Capital Markets,
- **Raiffeisen-Leasing Service Sp. z o.o.** and **Raiffeisen-Leasing Real Estate Sp. z o.o.** and special purpose entity **ROOF Poland Leasing 2014 DAC** – discontinued operations in the year 2016.

Principles of management information in the Group assume reporting results of segments to the level of gross profit. The individual segments are assigned both the income earned in the course of their activity and the operational costs associated with these activities as well as other components of the statement of profit or loss.

Allocation of operating expenses to segments of the Group is performed in accordance with a methodology approved by the Board. It is a multi-step process which end result is to assign all general operating expenses to segments.

Transactions between segments are conducted on usual, commercial terms. Transfer pricing of money in settlements between segments are valued based on market rates or the rates approved by the Assets and Liabilities Committee (ALCO) and is based on currency, tenor or due date of the transaction and liquidity margins. The allocation of assets and liabilities and related revenues and expenses to segments is based on segmentation of the Group's customers.

According to the Controlling Data principles within the Group, the result of each segment include an allocation of: interest income from the refinancing of equity and subordinated debt, the cost of depreciation of property, plant and equipment and intangible assets. Balance sheet items, with the exception of equity, based on which the above components of profit or loss were calculated, are recognized in full in the Assets and Liabilities Management and Other Activities segment.

Significant non-recurring income and expense, including those connected with "Polbank" brand and goodwill impairment are recognized in Assets and Liabilities Management and Other Activities segment.

Corporate Banking assets consist of loans and advances to customers and corporate securities allocated to this segment. The Corporate Banking liabilities consists of balance of deposits due to customers allocated to this segment.

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

Assets and liabilities of Retail Banking consist of balances allocated to this segment, respectively loans and advances to customers and deposits to customers.

The assets of the Financial Institutions and Capital Markets segment consist of the balance of loans and advances to customers allocated to this segment, a part of financial assets held for trading which does not belong to the liquidity portfolio, the balance of the reserve requirement, part of the balance of cash held in branches providing foreign exchange services, loans and advances to banks and a positive valuation of derivative financial instruments.

The Financial Institutions and Capital Markets Segment consists of the balance of deposits to customers allocated to this segment, deposits to banks excluding long-term financing allocated to Assets and Liabilities Management and Other Activities segment and negative valuation of derivative financial instruments.

Assets and Liabilities allocated to the Asset and Liabilities Management and Other Activities segment consist of items in the statement of financial position which are not assigned to other segments in particular:

- financial assets held for trading and investment securities portfolios which are classified as investment portfolios and liquidity of the Group,
- classified as related to the activities of ALM: liabilities to banks and other entities in respect of long-term funding, including subordinated debt,
- the remaining balance of cash including cash at the Central Bank.

Assets and liabilities unallocated consist of:

- tangible or intangible assets,
- assets and liabilities from income tax,
- other assets and liabilities.

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

For the financial year ended 31 December 2017	Continuing operations					Discontinued operations	Total
	Corporate Banking	Retail Banking	Financial Institutions & Capital Markets	Asasets & Liabilities Management & Other Activities	Total continuing operations		
Interest Income	471 454	665 190	34 637	391 523	1 562 804	0	1 562 804
Interest Expense	-67 132	-250 519	-58 789	-81 838	-458 278	0	-458 278
Net Interest Income (external)	**404 322**	**414 671**	**-24 152**	**309 685**	**1 104 526**	**0**	**1 104 526**
Net Interest Income (internal)	-40 892	117 166	49 789	-126 063	0	0	0
Net Interest Income	**363 430**	**531 837**	**25 637**	**183 621**	**1 104 526**	**0**	**1 104 526**
Non-interest income (external)	301 476	228 913	126 769	-15 536	641 622	0	641 622
Operating Income	**664 906**	**760 750**	**152 406**	**168 085**	**1 746 148**	**0**	**1 746 148**
General administrative expenses, including:	-294 948	-628 149	-75 660	-41 584	-1 040 341	0	-1 040 341
Depreciation	-17 874	-49 816	-4 022	-449	-72 161	0	-72 161
Tax on financial institutions	-38 855	-65 230	-8 470	-19 950	-132 505	0	-132 505
Provisioning for impairment losses	-89 024	-212 878	-3	100	-301 806	0	-301 806
Other operating result	0	18 462	5 695	-126 708	-102 552	0	-102 552
Profit before tax	**242 079**	**-127 046**	**73 968**	**-20 058**	**168 944**	**0**	**168 944**
Taxes					-93 326		-93 326
Net profit					**75 618**	**0**	**75 618**
Profit attributable to the equity holders of the Parent Entity							**75 618**
Allocated assets	12 640 767	19 913 801	1 370 778	14 359 849	48 285 196	0	48 285 196
Unallocated assets							689 399
Total assets	**12 640 767**	**19 913 801**	**1 370 778**	**14 359 849**	**48 974 595**	**0**	**48 974 595**
Allocated liabilities	11 712 325	19 815 899	3 497 489	6 722 014	41 747 727	0	41 747 727
Unallocated liabilities							746 613
Total liabilities	**11 712 325**	**19 815 899**	**3 497 489**	**6 722 014**	**42 494 340**	**0**	**42 494 340**

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

For the financial year ended 31 December 2016	Continuing operations					Discontinued operations	Total
	Corporate Banking	**Retail Banking**	**Financial Institutions & Capital Markets**	**Assets & Liabilities Management & Other Activities**	**Total continuing operations**		
Interest Income	477 541	646 361	38 300	427 887	1 590 089	0	**1 590 089**
Interest Expense	-115 096	-289 734	-76 516	-89 556	-570 902	0	**-570 902**
Interest Income (external)	**362 445**	**356 627**	**-38 216**	**338 331**	**1 019 187**	**0**	**1 019 187**
Interest Income (internal)	13 612	119 811	59 954	-193 377	0	0	**0**
Net Interest Income	**376 057**	**476 438**	**21 738**	**144 954**	**1 019 187**	**0**	**1 019 187**
Non-interest income	320 831	307 119	127 573	-57 294	698 229	0	**698 229**
Operating Income	**696 888**	**783 557**	**149 311**	**87 660**	**1 717 416**	**0**	**1 717 416**
General administrative expenses, including:	-298 070	-706 671	-57 991	-60 180	-1 122 912	0	**-1 122 912**
Depreciation	-18 932	-75 811	-3 432	-539	-98 714	0	**-98 714**
Tax on financial institutions	-42 039	-66 073	-9 029	-31 636	-148 777	0	**-148 777**
Provisioning for impairment losses	-56 096	-119 515	-106	-460	-176 177	0	**-176 177**
Other operating result	0	15 524	2 929	-196 230	-177 777	0	**-177 777**
Profit before tax	**300 683**	**-93 178**	**85 113**	**-200 844**	**91 774**	**0**	**91 774**
Taxes					-88 738	0	**-88 738**
Net profit					**3 036**	**11 720**	**14 756**
Profit attributable to the equity holders of the Parent Entity					**0**	**0**	**14 756**
Allocated assets	12 042 858	22 117 056	1 930 827	16 316 794	52 407 535	0	**52 407 535**
Unallocated assets					850 438	0	**850 438**
Total assets	**12 042 858**	**22 117 056**	**1 930 827**	**16 316 794**	**52 407 535**	**0**	**53 257 973**
	0	0	0	0	0	0	**0**
Allocated liabilities	13 562 024	20 510 794	2 666 098	9 403 993	46 142 909	0	**46 142 909**
Unallocated liabilities					752 381		**752 381**
Total liabilities	**13 562 024**	**20 510 794**	**2 666 098**	**9 403 993**	**46 142 909**	**0**	**46 895 290**

"Non-interest income" from the segments report agree to the sum of "Net fee and commission income" and

"Net income from financial instruments measured at fair value and net foreign exchange result" in the consolidated profit and loss account.

The Group operates only on the domestic market.

Revenues from transactions with any single external customer does not represent 10 percent or more of total revenue.

The Group offers a wide range of banking and financial services.

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

5. Net interest income

Interest income	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
	Continuing operations	
Loans and advances to banks	21 531	19 557
Loans and advances to customers	1 122 154	1 103 421
Financial assets held for trading	73 554	139 976
Derivative hedging instruments	158 672	189 000
Reverse repo instruments	4 821	9 567
Investment securities	182 072	128 568
Total	**1 562 804**	**1 590 089**
Interest expense		
Deposits from banks	-9 740	-13 194
Deposits from customers	-342 163	-433 208
Derivative hedging instruments	-4 835	-5 207
Repo intruments	-3 651	-6 585
Loans and advances received (including subordinated loans)	-84 169	-97 313
Debt securities issued	-13 720	-15 395
Total	**-458 278**	**-570 902**
Net interest income (including):	**1 104 526**	**1 019 187**
Total interest income from financial assets other than designated at fair value through profit or loss	1 330 578	1 261 113
Total interest expense related to financial assets other than designated at fair value through profit or loss	-453 443	-565 695

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 consolidated statement of profit or loss (cont.)

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

For the financial year ended 31 December 2017	At the beginning of the year	Increases		Decreases						At the end of the year	Proceeds from sale of receivables and other	Impact on the result for the year
		Impairment allowance recognised	Foreign exchange differences	Impairment allowance reversal	Write-off of assets	Sale of receivable	Sale of receivables	Reclassification	Foreign exchange differences			
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items determined on an individual basis												
Amounts due from banks	60	5	0	-60	0	0	0	0	-5	0	0	**55**
Amounts due from individuals	13 256	25 383	0	-24 318	0	0	0	-534	-7 416	6 371	0	**-1 065**
Amounts due from micro customers	16 756	4 579	0	-4 907	0	0	0	128	-1 838	14 718	0	**328**
Amounts due from large enterprises	548 400	238 826	0	-77 665	-1 231	-122 280	0	-179	-38 126	547 745	55 148	**-106 013**
Amounts due from SME	42 661	13 944	0	-3 722	-4 469	0	0	585	-110	48 889	0	**-10 222**
Off-balance sheet items	25 553	21 316	0	-22 875	0	0	0	0	-1 270	22 724	0	**1 559**
Investment securities	27 159	0	0	-27 159	0	0	0	0	0	0	0	**27 159**
Shares in subsidiaries	0	0	0	0	0	0	0	0	0	0	0	**0**
Total	**673 845**	**304 053**	**0**	**-160 706**	**-5 700**	**-122 280**	**0**	**0**	**-48 765**	**640 447**	**55 148**	**-88 199**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items determined on a collective basis (including IBNR)												
Amounts due from banks	40	75	0	-32	0	0	0	0	-7	76	0	**-43**
Amounts due from individuals	677 884	329 890	0	-202 773	-5 609	-24 467	0	-991	-26 260	747 674	9 162	**-117 955**
Amounts due from micro customers	352 139	148 189	4 362	-56 187	-4 641	-5 978	0	1 331	0	439 215	2 685	**-89 317**
Amounts due from large enterprises	61 751	35 371	0	-30 901	0	0	0	-333	-2 843	63 045	0	**-4 470**
Amounts due from SME	4 004	2 158	0	-2 434	0	0	0	-7	-48	3 673	0	**276**
Amounts due from the public sector	449	395	0	-100	0	0	0	0	0	744	0	**-295**
Off-balance sheet items	5 443	4 351	0	-2 548	0	0	0	0	-138	7 108	0	**-1 803**
Total	**1 101 710**	**520 429**	**4 362**	**-294 975**	**-10 250**	**-30 445**		**0**	**-29 296**	**1 261 535**	**11 847**	**-213 607**
Total allowances and provisions	**1 775 555**	**824 482**	**4 362**	**-455 681**	**-15 950**	**-152 725**		**0**	**-78 061**	**1 901 982**	**66 995**	**-301 806**

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

For the financial year ended 31 December 2016	At the beginning of the year	Increases		Decreases							At the end of the year	Proceeds from sale of receivables and other	Impact on the result for the year	
		Impairment allowance recognised	Foreign exchange differences	Changes due to change in Group structure	Impairment allowance reversal	Write-off of assets	Sale of receivable	Sale of receivables	Reclassification	Foreign exchange differences				
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items determined on an individual basis														
Amounts due from banks	0	0	0	0	0	0	0	0	60	0	60	0	-1 332	**0**
Amounts due from individuals	21 471	15 005	0	-5 357	-14 895	-419	0	0	-2 214	-335	13 256	0	-29 030	**1 222**
Amounts due from micro customers	123 030	49 720	0	-119 126	-26 941	-9 154	0	0	-547	-226	16 756	0	-17 505	**6 251**
Amounts due from large enterprises	771 563	303 864	0	-83 339	-228 085	-121 716	-91 866	0	1 658	-3 679	548 400	5 897	-2 632	**-52 377**
Amounts due from SME	74 056	17 663	0	-32 873	-9 207	-4 856	-3 566	0	1 463	-19	42 661	247	0	**-5 578**
Off-balance sheet items	41 228	26 084	647	0	-42 406	0	0	0	0	0	25 553	0	0	**16 322**
Shares in subsidiaries	0	27 159	0	0	0	0	0	0	0	0	27 159	0	0	**-27 159**
Total	**1 031 348**	**439 495**	**647**	**-240 695**	**-321 534**	**-136 145**	**-95 432**	**0**	**420**	**-4 259**	**673 845**	**6 144**	**-50 499**	**-61 319**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items determined on a collective basis (including IBNR)														
Amounts due from banks	165	31	0	0	-155	0	0	0	0	-1	40	0	0	**124**
Amounts due from individuals	597 795	289 982	8 662	-2 494	-202 728	0	-11 085	0	-2 248	0	677 884	5 701	-1 045	**-80 508**
Amounts due from micro customers	341 662	117 806	1 802	-21 168	-88 432	68	-2 002	0	2 409	-6	352 139	909	22 753	**-51 218**
Amounts due from large enterprises	102 807	27 706	0	-5 212	-63 279	0	0	0	-33	-238	61 751	0	22 253	**13 320**
Amounts due from SME	10 670	4 001	0	-5 440	-5 085	-7	0	0	-128	-7	4 004	0	491	**593**
Amounts due from the public sector	96	388	0	0	-35	0	0	0	0	0	449	0	0	**-353**
Off-balance sheet items	9 046	2 901	72	0	-6 576	0	0	0	0	0	5 443	0	71	**3 184**
Total	1 062 241	442 815	10 536	-34 314	-366 290	61	-13 087	0	0	-252	1 101 710	6 610	44 523	**-114 858**
Total allowances and provisions	**2 093 589**	**882 310**	**11 183**	**-275 009**	**-687 824**	**-136 084**	**-108 519**	**0**	**420**	**-4 511**	**1 775 555**	**12 754**	**-5 976**	**-176 177**

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

7. Net fee and commission income

Fee and commission income	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
	Continuing operations	
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	79 920
From handling of cash and bank transfers	58 619	57 976
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	4 673	3 243
Total	**655 130**	**668 987**
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	-1 093	-1 011
Total	**-68 451**	**-81 088**
Net fee and commission income (including):	**586 679**	**587 899**
Total commission income related to financial assets other than designated at fair value through profit or loss	347 907	360 751
Total commission expense related to financial assets other than designated at fair value through profit or loss	-53 590	-76 484

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

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

Net income from financial instruments measured at fair value	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
	Continuing operations	
Net income realized and unrealized (without the currency component) on currency derivatives	1 468	-46 143
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	**43 774**	**55 917**

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	1 055 487	-164 341
Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities	-1 048 872	212 701
Total net foreign exchange result	**6 615**	**48 360**
Total net income from financial instruments measured at fair value and net foreign exchange result	**54 683**	**110 210**

"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 16.

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".

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

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.

Additional information on hedged and hedging financial instruments is presented in note 17.

"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.

9. General administrative expenses

9.1. Salaries, wages and other employee benefits

Salaries, wages and other employee benefits	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
	Continuing operations	
Salaries and wages	-444 217	-466 460
Social insurance costs	-67 748	-68 568
Other employee benefits	-11 579	-13 280
Total	**-523 543**	**-548 308**

9.2. Other administrative expenses

Other administrative expenses	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
	Continuing operations	
Maintenance and rental of buildings	-104 823	-132 970
including lease installments	-78 865	-100 660
IT and telecommunication costs	-94 633	-95 976
Contribution and payments to Bank Guarantee Fund	-71 907	-96 775
Consulting services	-50 343	-22 596
Marketing costs	-24 050	-24 384
Training costs	-8 903	-11 396
Costs of other lease installments	-4 262	-4 490
Other sundry costs	-85 714	-87 303
Depreciation cost including:	-72 161	-98 714
depreciation cost on property, plant and equipment	-31 714	-37 795
depreciation cost on intangible assets	-40 447	-60 919
Total	**-516 797**	**-574 604**

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

10. Other operating income and expense

Other operating income	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
	Continuing operations	
Revenue from non-banking activities	21 220	15 173
Release of other provisions	9 465	4 092
Reversal of expense accrual	19 737	0
Income on disposal of property, plant and equipment and intangible assets	1 696	1 993
Reversal of impairment allowance on other assets	154	390
Reversal of other asset write offs	665	16
Other	3 207	4 485
Total	**56 144**	**26 149**

Revenue from non-banking activities relates to revenue reported by consolidated entities and includes mainly income from sale of group insurance and foreign exchange services.

Other operating expense	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
	Continuing operations	
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	-5 131	-25 705
Total	**-158 696**	**-203 926**

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 Group 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 consolidated statement of profit or loss (cont.)

11. Income tax expense

For the financial year ended 31 December 2017	At the beginning of the year	CHANGES Profit or loss statement	 Other comprehensive income	At the end of the year
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	39 903	-6 465	-4 967	**28 471**
Negative foreign exchange differences	0	0	0	**0**
Commission settled using effective interest rate	46 604	8 162	0	**54 766**
Impairment allowance not recognized as tax-deductible costs	137 337	13 973	0	**151 310**
Lease agreements valuation differences	0	0	0	**0**
Other (including impairment on other assets)	-1 347	463	0	**-883**
Deferred costs	33 433	3 825	0	**37 258**
Other	15 874	461	0	**16 335**
Tax loss	42 325	-41 346	0	**979**
Deferred tax asset, gross	**335 364**	**-21 430**	**-4 967**	**308 967**
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**
Bonds valuation	0	0	0	**0**
Fair value of derivatives (without the currency component) and securities	34 028	400	4 875	**39 303**
Commission settled using effective interest rate	57 848	3 354	0	**61 202**
Difference between depreciation for tax and accounting purposes	34 020	2 426	0	**36 447**
Positive foreign exchange differences	-1 418	0	0	**-1 418**
Other	26 779	-19 518	0	**7 260**
Deferred tax provision, gross	**207 696**	**-7 156**	**4 875**	**205 415**
Deferred tax charge	**127 668**	**-14 274**	**-9 842**	**103 552**
Deferred tax asset, net	**127 668**	**-14 274**	**-9 842**	**103 552**

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

For the financial year ended 31 December 2016	At the beginning of the year	CHANGES			At the end of the year
		Profit or loss statement	Other comprehen-sive income	Changes in the Group structure	
Deferred income tax asset					
Interest accrued, payable (cost), including:	25 690	-1 962	0	-2 494	**21 234**
Interest on deposits	23 607	-10 341	0	-2 494	**10 772**
Interest on securities and derivatives	2 083	4 466	0	0	**6 549**
Discount on securities	0	3 913	0	0	**3 913**
Fair value of derivatives (without the currency component) and securities	11 249	28 257	503	-106	**39 903**
Negative foreign exchange differences	8 213	-45	0	-8 168	**0**
Commission settled using effective interest rate	42 015	9 708	0	-5 118	**46 604**
Impairment allowance not recognized as tax-deductible costs	185 388	-10 484	0	-37 567	**137 337**
Lease agreements valuation differences	347 730	10 792	0	-358 522	**0**
Other (including impairment on other assets)	1 008	-621	0	-1 734	**-1 347**
Deferred costs	35 836	-295	0	-2 108	**33 433**
Other	17 677	-328	0	-1 475	**15 874**
Tax loss	83 662	-41 337	0	0	**42 325**
Deferred tax asset, gross	**758 468**	**-6 315**	**503**	**-417 292**	**335 364**
Deferred tax provision					
Interest accrued, receivable (income), including:	43 281	16 042	0	-2 884	**56 439**
Interest on loans	29 777	7 372	0	-2 884	**34 265**
Interest on securities and derivatives	12 446	9 613	0	0	**22 059**
Discount on securities	1 058	-943	0	0	**115**
Bonds valuation	1 762	-772	0	-990	**0**
Fair value of derivatives (without the currency component) and securities	20 078	23 182	-9 206	-26	**34 028**
Commission settled using effective interest rate	53 970	4 210	0	-332	**57 848**
Difference between depreciation for tax and accounting purposes	29 007	5 614	0	-601	**34 020**
Positive foreign exchange differences	-826	-5	0	-587	**-1 418**
Other	51 911	-25 132	0	0	**26 779**
Deferred tax provision, gross	**199 183**	**23 139**	**-9 206**	**-5 420**	**207 696**
Deferred tax charge	**559 285**	**-29 454**	**9 709**	**-411 872**	**127 668**
Deferred tax asset, net	**559 285**	**-29 454**	**9 709**	**-411 872**	**127 668**

Parent Entity'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 Parent Entity 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 consolidated statement of profit or loss (cont.)

Reconciliation of effective tax rate - continuing operations	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
Profit/loss before tax	168 944	91 774
Current income tax at the local tax rate on profit before tax (19%)	-32 099	-17 437
Tax effect of non-deductible expenses incurred and estimated	-61 056	-70 604
Tax effect of non-taxable income	-171	-597
Release of deferred tax for receivable income	0	-100
Total income tax charge	**-93 326**	**-88 738**

Analysis of income tax expense recognised in the statement of profit or loss	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
Current income tax	-78 910	-65 601
Correction of current income tax regarding previous years	-142	-23 829
Deferred tax	-14 274	692
Total income tax charge	**-93 326**	**-88 738**

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 consolidated 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.

12. Dicontinued operations

On 31 March 2016 the Parent Entity 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 PFSA recommendation. As a result the Group lost control of the RLPL and all other companies comprising the RLPL Group, namely Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Services Sp. z o.o., Raiffeisen-Leasing Real Estate Sp. z o.o. and the special purpose entity, ROOF Poland Leasing 2014 DAC.

The range of the activities to the disposed operations constituted an important and distinct line of the Group's business and therefore have been classified as discontinued operations.

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

	For the financial period from 1 January 2016 to 31 March 2016*
Interest income	77 294
Interest expense	-42 271
Net interest income	**35 023**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	-5 976
Fee and commission income	10 426
Fee and commission expense	-49
Net fee and commission income	**10 377**
Net income from financial instruments measured at fair value and net foreign exchange result	-117
General administrative expenses	-31 801
Other operating income	15 525
Other operating expenses	-1 626
Profit before tax	**21 405**
Income tax expense	-4 997
Net profit	**16 408**
Result before tax on sale of discontinued operations	**33 751**
Income tax on sale of discontinued operations	**-38 439**
Net profit of discontinued operations	**11 720**
Net cash flow from operating activities	**-119 693**
Net cash flow from investing activities	**-1 211**
Net cash flow from financing activities	**-590 940**

* till the date control over RLPL Group was lost by Parent Entity

13. Earnings per share

13.1. Profit per share

The profit per share was calculated by dividing net profit attributable to the ordinary holders of Parent Entity 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 30).

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

	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
	Continuing operations	
Net profit/loss attributable to the equity holders of the Parent Entity (in PLN thous.)	75 618	14 756
Weighted average number of ordinary shares in the period (in units)	225 668 340	225 668 340
Profit per one share	**0,3**	**0,1**

13.2. Diluted profit per share

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

Diluted earnings per share	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
	Continuing operations	
Net profit/loss attributable to the equity holders of the Parent Entity (in PLN thous.)	75 618	14 756
Weighted average number of ordinary shares in the period (in units)	225 668 340	225 668 340
Diluted profit per one share	**0,3**	**0,1**

Notes to the consolidated statement of financial position

14. 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 Group 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 Group 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.

15. Amounts due from bank

	31 December 2017	31 December 2016
Collateral deposits	43 309	139 126
Cash on current accounts	48 514	153 108
Loans and advances to banks	47 819	42 429
Gross amounts due from banks	**139 642**	**334 663**
Impairment allowance	-76	-100
Net amounts due from banks	**139 566**	**334 563**

The average interest rate of deposits with other banks and loans and advances to banks in 2017 amounted to 1.91% (2.34 % as at 31 December 2016).

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 33).

Notes to the consolidated statement of financial position (cont.)

16. Derivative financial instruments and embedded instruments

16.1. Derivative financial instruments

The Group 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 Group'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 Group 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 Group and a customer (OTC). The Group is exposed to credit risk on purchased options 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 Group'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 consolidated statement of financial position (cont.)

16.2. Forward sale agreement of loan portfolio

The Parent Entity 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 The Parent Entity 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 The Parent Entity 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 The Parent Entity statement of profit or loss.

In the event when The Parent Entity reassesses the value of notional amount of forward transaction, The Parent Entity 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 consolidated 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	26 089 130	316 843	243 589
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**	**28 504 224**	**336 859**	**264 095**
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**	**42 799 597**	**466 709**	**347 353**
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 derivatives financial instruments	**49 532 625**	**537 524**	**561 536**	**50 278 301**	**466 709**	**1 546 166**

Notes to the consolidated statement of financial position (cont.)

17. Hedge accounting

The Group applies hedge accounting in fair value hedges of granted fixed rate loans. The Group 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 Parent Entity 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 8.

	For the financial year ended 31 December 2017	For the financial 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 financial year ended 31 December 2017	For the financial year ended 31 December 2016
Nominal value of hedging instrument	108 000	121 549
Nominal value of hedged instrument	108 000	121 549

The Group 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 Group 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 16.

Notes to the consolidated statement of financial position (cont.)

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

	For the financial year ended 31 December 2017	For the financial 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 recognized in the profit or loss	158 672	189 000
Ineffective change in fair value of hedging transactions recognized in the statement of profit or loss	3 687	5 013

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

	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) at the beginning of the year	**-37 998**	**-46 858**
Revaluation reserves (revaluation with interest 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
Ineffective change in fair value of hedging transactions presented in the statement of profit or loss	-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 consolidated 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 month	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						
FX swaps	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 month	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						
FX swaps	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 consolidated statement of financial position (cont.)

18. Financial assets held for trading

Financial assets held for trading	31 December 2017	31 December 2016
Bonds and bills issued by the State Treasu	795 513	371 779
NBP bills	0	7 393 915
Other finacial 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).

19. Investment securities

For the financial year ended 31 December 2017	At the beginning of the year	Increases	Decreases (sale, redemption and other)	Change of accrued interests, discount and valuation	Foreign exchange differences	Impair-ment	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	60 140	0	-14 600	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**
NBP money bills	0	20 220 000	-15 660 000	-1 248	0	0	**4 558 752**
Total available for sale	4 487 472	23 835 353	-18 777 286	38 063	-2 998	27 159	**9 607 763**
Total	**7 962 554**	**24 999 753**	**-20 339 686**	**1 604**	**-2 998**	**27 159**	**12 648 386**

For the financial year ended 31 December 2016	At the beginning of the year	Increases	Decreases (sale, redemption and other)	Change of accrued interests, discount and valuation	Foreign exchange differences	Impair-ment	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**
NBP bills	0	0	0	0	0	0	**0**
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	95 495	524	-40 837	0	2 611	2 348	**60 140**
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	**1 876 698**	**4 044 163**	**-1 402 091**	**-9 097**	**2 611**	**-24 811**	**4 487 472**
Total	**3 841 655**	**5 531 972**	**-1 402 091**	**13 219**	**2 611**	**-24 811**	**7 962 554**

*treasury bonds

Notes to the consolidated statement of financial position (cont.)

Information on fair value of financial investment is presented in note 38.

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).

20. Loans and advances to customers

Client segmentation used in the notes below is based on risk classes attributed to the particular clients according to the Group's internal principles and is different from the classification of clients presented in note 4 "Segment information", which is based on the business model of the Group.

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	11 608 322	610 790	10 997 532	10 952 367	610 151	10 342 216
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	**34 285 400**	**1 872 074**	**32 413 326**	**35 581 797**	**1 717 300**	**33 864 497**

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 6. 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 consolidated 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 on individual basis	Individual allowance	Impaired loans and advances to customers valued on collective basis	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	9 958 267	31 619	703 731	31 426	946 324	547 745	0	0	**10 997 532**
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	**30 697 397**	**116 211**	**723 094**	**32 384**	**1 049 438**	**617 722**	**1 815 471**	**1 105 757**	**32 413 326**

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 on individual basis	Individual allowance	Impaired loans and advances to customers valued on collective basis	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	9 453 399	46 018	527 026	15 695	971 942	548 438	0	0	**10 342 216**
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	**32 215 712**	**116 193**	**555 917**	**16 965**	**1 087 166**	**621 073**	**1 723 002**	**963 069**	**33 864 497**

Notes to the consolidated statement of financial position (cont.)

21. Intangible assets

For the financial year ended 31 December 2017	"Polbank" brand	Customer relation-ships	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT						
At the beginning of the year	**200 000**	**70 400**	**669 035**	**48 482**	**1 984**	**989 901**
Direct additions	0	0	2 992	31 648	3 187	**37 827**
Internal development or reclasification	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**	**657 332**	**39 679**	**5 171**	**772 582**
ACCUMULATED DEPRECIATION						
At the beginning of the year	**0**	**53 593**	**465 766**	**0**	**0**	**519 359**
Depreciation charge	0	5 840	34 607	0	0	**40 447**
Disposals	0	0	-51 747	0	0	**-51 747**
At the end of the year	**0**	**59 433**	**448 626**	**0**	**0**	**508 059**
IMPAIRMENT						
At the beginning of the year	**86 000**	**0**	**-1**	**1 460**	**0**	**87 459**
Decreases	-86 000	0	0	-1 460	0	**-87 459**
At the end of the year	**0**	**0**	**-1**	**0**	**0**	**0**
NET AMOUNT						
At the beginning of the year	**114 000**	**16 807**	**203 270**	**47 022**	**1 984**	**383 083**
At the end of the year	**0**	**10 967**	**208 707**	**39 679**	**5 171**	**264 524**

For the financial year ended 31 December 2016	Goodwill	"Polbank" brand	Customer relation-ships	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**	**712 191**	**34 389**	**8 828**	**1 058 774**
Direct additions	0	0	0	1 518	44 988	176	**46 682**
Internal development or reclassification	0	0	0	27 387	-27 387	0	**0**
Disposals	-32 966	0	0	-29 359	-3 078	-6 836	**-72 239**
Changes in the Group structure	0	0	0	-42 702	-430	-184	**-43 316**
At the end of the year	**0**	**200 000**	**70 400**	**669 035**	**48 482**	**1 984**	**989 901**
ACCUMULATED DEPRECIATION							
At the beginning of the year	**0**	**0**	**43 835**	**462 622**	**0**	**0**	**506 457**
Depreciation charge	0	0	9 758	51 446	784	0	**61 988**
Disposals	0	0	0	-21 352	0	0	**-21 352**
Changes in the Group structure	0	0	0	-26 950	-784	0	**-27 734**
At the end of the year	**0**	**0**	**53 593**	**465 766**	**0**	**0**	**519 359**
IMPAIRMENT							
At the beginning of the year	**0**	**0**	**0**	**9**	**649**	**0**	**658**
Additions	0	86 000	0	0	811	0	**86 811**
Decreases	0	0	0	-10	0	0	**-10**
At the end of the year	**0**	**86 000**	**0**	**-1**	**1 460**	**0**	**87 459**
NET AMOUNT							
At the beginning of the year	**32 966**	**200 000**	**26 565**	**249 560**	**33 740**	**8 828**	**551 659**
At the end of the year	**0**	**114 000**	**16 807**	**203 270**	**47 022**	**1 984**	**383 083**

Notes to the consolidated 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 Group'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 consolidated 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 to the consolidated financial statements).

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

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

Notes to the consolidated statement of financial position (cont.)

22. Property, plant and equipment

For the financial 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	**178 503**	**264 933**	**44**	**31 878**	**3 204**	**0**	**478 562**
Direct additions	165	6 397	0	128	5 795	1 696	**14 180**
Internal development	1 689	4 024	0	14	-5 762	0	**-35**
Disposals	-25 557	-23 123	0	-7 442	-125	0	**-56 247**
At the end of the year	**154 800**	**252 231**	**44**	**24 578**	**3 112**	**1 696**	**436 461**
ACCUMULATED DEPRECIATION							
At the beginning of the year	**118 979**	**215 614**	**32**	**23 627**	**0**	**0**	**358 253**
Depreciation charge	10 064	20 022	4	1 626	-1	0	**31 714**
Disposals	-19 392	-20 211	0	-7 375	0	0	**-46 978**
At the end of the year	**109 651**	**215 425**	**36**	**17 877**	**-1**	**0**	**342 988**
IMPAIRMENT							
At the beginning of the year	**693**	**1 387**	**0**	**1**	**0**	**0**	**2 082**
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**	**93**	**0**	**0**	**5 327**
NET AMOUNT							
At the beginning of the year	**58 830**	**47 931**	**12**	**8 249**	**3 204**	**0**	**118 228**
At the end of the year	**41 959**	**34 762**	**8**	**6 607**	**3 113**	**1 696**	**88 146**

Notes to the consolidated statement of financial position (cont.)

For the financial 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	**232 953**	**339 589**	**190 114**	**41 616**	**8 846**	**2 884**	**816 002**
Additions during the year, including:	20 659	17 468	6 190	550	-4 029	0	**0**
Direct additions	177	9 788	6 110	4 924	33 765	0	**54 764**
Internal development or reclassific	20 482	7 680	80	-4 374	-37 794	0	**-13 926**
Disposals	-62 780	-71 995	-10 492	-7 320	-1 613	-2 884	**-157 084**
Changes in the Group structure	-12 329	-20 129	-185 768	-2 968	0	0	**-221 194**
At the end of the year	**178 503**	**264 933**	**44**	**31 878**	**3 204**	**0**	**478 562**
ACCUMULATED DEPRECIATION							
At the beginning of the year	**181 593**	**263 664**	**49 094**	**33 814**	**0**	**0**	**528 166**
Depreciation charge	10 557	25 979	6 063	1 840	0	0	**44 439**
Disposals	-56 647	-67 390	-4 549	-7 177	0	0	**-135 763**
Reclassification	-1 606	-10 047	-50 666	-2 761	0	0	**-65 080**
Changes in the Group structure	-14 918	3 408	90	-2 089	0	0	**-13 509**
At the end of the year	**118 979**	**215 614**	**32**	**23 627**	**0**	**0**	**358 253**
IMPAIRMENT							
At the beginning of the year	**1 060**	**4 655**	**4 157**	**32**	**1 703**	**0**	**11 608**
Additions	5 440	1 512	0	59	0	0	**7 011**
Decreases	-5 767	-4 391	-352	-83	-1 703	0	**-12 296**
Changes in the Group structure	-40	-389	-3 805	-7	0	0	**-4 241**
At the end of the year	**693**	**1 387**	**0**	**1**	**0**	**0**	**2 082**
NET AMOUNT							
At the beginning of the year	**50 299**	**71 269**	**136 863**	**7 769**	**7 143**	**2 884**	**276 229**
At the end of the year	**58 830**	**47 931**	**12**	**8 249**	**3 204**	**0**	**118 228**

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 Group did not use any other property, plant and equipment in financial leases.

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

Notes to the consolidated statement of financial position (cont.)

23. Other assets

Other assets	31 December 2017	31 December 2016
Financial assets gross		
Collection of bills and cheques	150	2 451
Sundry debtors	97 641	85 478
Settlements with brokerage offices – receivables	5 039	4 757
Settlements of payment cards transactions - receivables	107 105	101 513
Total financial assets, gross	**209 935**	**194 199**
Impairment allowance	-7 363	-13 467
Total financial assets, net	**202 572**	**180 732**
Non-financial assets gross		
Accruals and prepayments	24 772	35 974
Income receivable	1 642	1 566
Assets acquired for debt	2 017	2 581
Other	2 153	185
Public (law) settlements	21	422
Total non-financial assets, gross	**30 605**	**40 728**
Impairment allowance	0	0
Total non-financial assets, net	**30 605**	**40 728**
Total	**233 177**	**221 460**

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 Group which enables Group'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 allowance on other receivables	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
At the beginning of the year	**13 467**	**8 134**
Changes in the Group structure	0	-3 582
Impairment allowance recorded	4 351	12 697
Use of impairment allowance	-1 077	-135
Reversal of impairment allowance	-9 378	-3 647
As at the end of the year	**7 363**	**13 467**

Notes to the consolidated statement of financial position (cont.)

24. Amounts due to banks and other monetary institutions

	31 December 2017	31 December 2016
Current accounts	521 699	140 168
Term deposits	113 432	194 067
Loans received	5 144 754	7 099 171
Total	**5 779 885**	**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).

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

25. 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	11 228 294	12 326 483
Amounts due to SME	3 019 122	3 219 506
Amounts due to the public sector	0	1
Total	**34 341 447**	**36 329 411**

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.

26. Subordinated liabilities

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

Subordinated loans will be repaid by the Parent Entity on the date of their maturity. In both 2017 and 2016 the Parent Entity did not record any delays in repayment schedules of interest and capital nor violated any

Notes to the consolidated statement of financial position (cont.)

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 Group can classify subordinated liabilities as its own. For the purpose of calculating the Group'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).

27. Liabilities from debt securities issued

For the financial year ended 31 December 2017	At the beginning of the year	Decreases due repayment	Decreases - payment of interests	Change of accrued interest	At the end of the year
Liabilities from debt securities issued by Parent Entity	501 830	-500 000	-15 550	13 720	0
Total	**501 830**	**-500 000**	**-15 550**	**13 720**	**0**

For the financial year ended 31 December 2016	At the beginning of the year	Decreases due to the changes in the Group structure	Decreases - payment of interests	Change of accrued interest	At the end of the year
Liabilities from debt securities issued by Parent Entity	501 825	0	-15 390	15 395	501 830
Liabilities from debt securities issued by securitization entity	1 256 852	-1 259 674	0	2 822	0
Total	**1 758 677**	**-1 259 674**	**-15 390**	**18 217**	**501 830**

At 19 November 2014 the Parent Entity 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 Parent Entity repaid these bonds.

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

Notes to the consolidated statement of financial position (cont.)

28. 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	214 281	192 113
Settlements related to payment cards	30 705	30 730
Total financial liabilities gross	**485 457**	**444 058**
Non-financial liabilities		
Deferred income	70 097	62 448
Social and legal settlements	34 225	33 931
Other	2 140	1 253
Total non-financial liabilities gross	**106 462**	**97 632**
Total	**591 919**	**541 690**

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

29. Provisions

For the financial 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	Change in the Group structure	At the end of the year
Impairment provisions for off-balance sheet commitments assessed individually	25 552	21 316	-22 875	0	-1 270	0	**22 723**
Impairment provisions for off-balance sheet commitments assessed collectively IBNR	5 444	4 351	-2 548	0	-138	0	**7 109**
Total impairment provisions	**30 996**	**25 667**	**-25 423**	**0**	**-1 408**	**0**	**29 832**
Provisions for disputes and claims	14 358	751	-135	-700	0	0	**14 274**
Provision for employee bonuses	65 808	76 870	-39 333	-47 379	-145	0	**55 821**
Provision for unused holidays	16 253	252	-290	-1 937	0	0	**14 279**
Provision for pension and death benefits	3 237	57	0	-92	0	0	**3 202**
Restructuring provision	16 067	31 717	-6	-21 289	0	0	**26 489**
Other provisions	10	0	0	-7	0	0	**3**
Total provisions	**115 733**	**109 647**	**-39 764**	**-71 404**	**-145**	**0**	**114 068**
Total	**146 729**	**135 314**	**-65 187**	**-71 404**	**-1 553**	**0**	**143 900**

Notes to the consolidated statement of financial position (cont.)

For the financial 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	Change in the Group structure	At the end of the year
Impairment provisions for off-balance sheet commitments assessed individually	41 228	26 084	-42 406	0	646	0	**25 552**
Impairment provisions for off-balance sheet commitments assessed collectively IBNR	9 047	2 901	-6 576	0	72	0	**5 444**
Total impairment provisions	**50 275**	**28 985**	**-48 982**	**0**	**718**	**0**	**30 996**
Provisions for disputes and claims	17 902	2 067	-2 523	-2 800	0	-288	**14 358**
Provision for employee bonuses	56 861	83 576	-31 974	-35 761	0	-6 894	**65 808**
Provision for unused holidays	23 884	25 062	-26 888	-2 074	0	-3 731	**16 253**
Provision for pension and death benefits	3 543	0	-110	-12	0	-184	**3 237**
Restructuring provision	9 748	27 524	-909	-20 296	0	0	**16 067**
Other provisions	110	8	0	-108	0	0	**10**
Total provisions	**112 048**	**138 237**	**-62 404**	**-61 051**	**0**	**-11 097**	**115 733**
Total	**162 323**	**167 222**	**-111 386**	**-61 051**	**718**	**-11 097**	**146 729**

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 31.

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

- provision resulting from a penalty imposed on the Parent Entity 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 Parent Entity appealed against the decision and raised a provision for this penalty in the 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 Group'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.

Notes to the consolidated statement of financial position (cont.)

The restructuring provision as at 31 December 2017, in the amount of 26 489 thousand (PLN 16 067 thousand as at 31 December 2016) has been created mainly for the purpose of severance payments resulting from the existing restructuring programs, as well as costs associated with the liquidation of the Parent Entity 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 Parent Entity for 2017-2019.

30. 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 Parent Entity'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.

	Par value of shares held		Number of shares (in units)	
Registered share capital	**For the financial year ended 31 December 2017**	**For the financial year ended 31 December 2016**	**For the financial year ended 31 December 2017**	**For the financial year ended 31 December 2016**
At the beginning of the year	2 256 683	2 256 683	248 260	248 260
Split of existing shares	0	0	225 420 080	0
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 Parent Entity'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 Parent Entity 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.

Notes to the consolidated statement of financial position (cont.)

Other capital and reserves	31 December 2017	31 December 2016
General banking risk reserve	1 025 019	995 019
Settlement of the purchase of an organized part of an entity	-3 883	-3 883
Revaluation reserve for avaiable for sale financial assets	19 316	-5 390
Revaluation reserve for cash flow hedge derivatives	-13 531	-30 778
Brokerage activities reserve	1 000	1 000
Other reserves	46 522	46 522
At the end of the year	**1 074 443**	**1 002 489**

Dividends

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

Other notes

31. 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:	6 894 694	7 129 960
With initial maturity up to 1 year	3 686 439	3 396 644
With initial maturity above 1 year	3 208 255	3 733 316
Total financial liabilities granted	**6 894 694**	**7 129 960**
Total	**9 013 015**	**9 058 222**

	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 Group 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 Group equaled PLN 183 223 thousand as at 31 December 2017 (PLN 52 465 thousand as at 31 December 2016). The Group created provisions for cases in which probability of economic outflow was higher than 50%. For the remaining part of litigations against the Group 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 Parent Entity amounted to PLN 3 630 thousand (mainly provisions for claims of former franchisee partners of the Parent Entity 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 29 of the financial statements.

Other notes (cont.)

In December 2016 Office of Competition and Consumer Protection (OCCP) issued a decision, in which it decided that the Parent Entity infringed the collective consumer interests by not taking into account of negative LIBOR and after withdrawing this practice the Parent Entity 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 Parent Entity filed an appeal to the Consumer and Competition Protection Court. In both in 2017 and in 2016 in the Parent Entity 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.

32. The Group as a lessee

In the case of operating leases where the Group 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 Group’s business activities, and operating leases of cars.

33. 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	15		
Mandatory reserves with the Central Bank		536 156	1 064 061
Amounts due from banks	16		
Collateral deposits and other		43 309	139 126
Investment securities	20		
Treasury bonds serving as collateral for derivative financial instruments		42 960	1 185 902
Treasury bonds serving as collateral for received loans		0	254 865
Financial instruments blocked for BFG		230 524	229 409
Loans and advances to customers	21		
Collateral deposits for currency transaction- receivables		43 290	5 343

Other notes (cont.)

34. Sale of receivables

In 2017, the Parent Entity 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 Parent Entity 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 Parent Entity. All risks and rewards from sold portfolios were transferred to the buyers.

35. Custody activities

The Group 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 consolidated financial statements, because they do not belong to the Group.

As at 31 December 2017 the Custody Unit maintained 551 securities accounts for customers (537 accounts as at 31 December 2016). The 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 Parent Entity kept publicly traded securities, securities in a material form and securities traded abroad. As a part of providing custody services to customers, the Group cooperated with several brokerage offices. The Parent Entity 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.

36. 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 with other banks	48 504	153 108
Cash and cash equivalents presented in the cash flow statement	**1 364 494**	**1 884 977**

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.

Other notes (cont.)

The differences are as follows:

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

5. Changes in the Group structure (relates to the year 2016).

Other notes (cont.)

For the year ended 31 December 2017	changes									
	in statement of financial position	in statement of cash flows	difference of which:	1	2	3	4a	4b	4c	5
Interbank placements, loans and advances to other banks	194 997	68 707	126 290	21 686	104 604	0	0	0	0	0
Financial assets held for trading	6 816 939	6 732 840	84 099	84 099	0	0	0	0	0	0
Derivative financial instruments	-1 055 445	-1 192 258	136 813	158 108	0	-21 294	0	0	0	0
assets	*-70 815*	*-212 454*	*141 639*	*162 934*	*0*	*-21 294*	*0*	*0*	*0*	*0*
liabilities	*-984 630*	*-979 804*	*-4 826*	*-4 826*	*0*	*0*	*0*	*0*	*0*	*0*
Loans and advances to customers	1 451 171	347 910	1 103 260	1 103 260	0	0	0	0	0	0
Amounts due to banks and other monetary institutions	-920 758	74 391	-995 149	-97 155	0	0	84 169	-567 425	-414 738	0
Amounts due to customers	-1 987 964	-1 634 074	-353 890	-353 891	0	0	0	0	0	0

For the year ended 31 December 2016	changes									
	in statement of financial position	in statement of cash flows	difference of which:	1	2	3	4a	4b	4c	5
Interbank placements, loans and advances to other banks	991 787	914 240	77 547	19 623	57 924	0	0	0	0	0
Financial assets held for trading	4 523 068	4 388 013	135 055	135 055	0	0	0	0	0	0
Derivative financial instruments	162 892	-12 517	175 409	184 692	0	-8 860	0	0	0	-423
assets	*95 337*	*-85 837*	*181 174*	*189 899*	*0*	*-8 860*	*0*	*0*	*0*	*135*
liabilities	*67 555*	*73 320*	*-5 765*	*-5 207*	*0*	*0*	*0*	*0*	*0*	*-558*
Loans and advances to customers	5 341 628	-1 372 273	6 713 901	1 131 665	0	0	0	0	0	5 582 236
Amounts due to banks and other monetary institutions	-6 048 084	-266 944	-5 781 140	-116 344	0	0	126 392	-1 428 231	276 559	-4 639 515
Amounts due to customers	-1 432 735	-896 340	-536 394	-472 720	0	0	0	-34 686	0	-28 989

Other notes (cont.)

37. Net income from financial instruments

Net income from loans and advances granted to customers and banks

	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
Interest income, including:	1 143 685	1 122 978
from loans and advances granted to banks	21 531	19 557
from loans and advances granted to customers	1 122 154	1 103 421
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	**1 190 333**	**1 174 800**

Net income on investment securities

	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
Discount income	-17 540	-41 030
Interest income	199 612	169 598
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 financial year ended 31 December 2017	For the financial year ended 31 December 2016
Interest expenses – total cost of interest on financial liabilities not measured at the fair value through profit or loss	-453 443	-565 695
Commission expenses – fees and commissions on loans received	-25	-165
Total	**-453 468**	**-565 860**

38. Fair value of assets and liabilities

The main assumptions and methods used by the Group 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 Group'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 Parent Entity 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 Group'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 Group 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 Group 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 Parent Entity estimated that the credit spread for financial instruments in Parent Entity's portfolio measured between 40 and 500 base points;
- probability of default indicator (PD). As at the day of consolidated 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

Other notes (cont.)

fluctuation of +/- 100 bps amounted to +/- PLN 46 thousand change in profit or loss. No impact on equity.

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

For the financial 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**	**3 667**	**293 895**	**363**
Increases, including:	42 026	2 252	178 028	981
Purchase	41 523	0	177 541	0
Derivatives opened during the year	0	624	0	597
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 financial 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**	**9 859**	**319 970**	**7**
Increases, including:	275 813	3 645	84 013	360
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	70
Decreases, including:	-86 071	-9 837	-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
Reclasification	0	-9 156	0	0
Changes in the Gropu structure	0	-31	0	0
At the end of the year	**281 649**	**3 667**	**293 895**	**363**
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.)

Postition 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	139 566	139 644	0	0	139 644	334 563	334 486	0	0	334 486
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	7 393 914	281 649
Derivative financial instruments, including:	537 524	537 524	0	533 847	3 677	466 709	466 709	0	463 043	3 666
Derivative financial instruments held for trading	436 382	436 382	0	432 705	3 677	466 709	466 709	0	463 043	3 666
Cash flow hedge derivative financial instruments	101 142	101 142	0	101 142	0	0	0	0	0	0
Investment securities, including:	12 648 386	12 659 121	7 795 104	4 558 752	305 265	7 962 554	7 922 498	7 568 463	0	354 035
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	4 487 472	4 487 472	4 133 437	0	354 035
Equity interests	49 212	49 212	0	0	49 212	60 140	60 140	0	0	60 140
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:	32 413 326	29 926 758	0	0	29 926 758	33 864 497	31 441 321	0	0	31 441 321
Individual customers	17 516 114	15 160 956	0	0	15 160 956	19 631 840	17 322 307	0	0	17 322 307
Micro customers	2 402 102	2 169 006	0	0	2 169 006	2 491 608	2 364 899	0	0	2 364 899
Large enterprises	10 997 532	11 124 309	0	0	11 124 309	10 342 216	10 355 266	0	0	10 355 266
SME	1 392 595	1 367 622	0	0	1 367 622	1 311 710	1 311 722	0	0	1 311 722
Public sector	104 983	104 865	0	0	104 865	87 123	87 127	0	0	87 127
Other financial assets	202 572	202 572	0	0	202 572	180 732	180 732	0	0	180 732
Total financial assets	**48 487 768**	**46 012 012**	**8 940 140**	**5 092 599**	**31 979 273**	**52 588 266**	**50 101 262**	**7 967 856**	**7 856 969**	**34 276 437**

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	5 779 885	5 737 361	0	0	5 737 361	7 433 406	7 325 622	0	0	7 325 622
Derivative financial instruments, including:	561 536	561 536	0	560 215	1 321	1 546 166	1 546 174	0	1 545 812	362
Derivative financial instruments held for trading	399 306	399 306	0	397 985	1 321	347 353	347 361	0	346 999	362
Cash flow hedge derivative financial instruments	150 304	150 304	0	150 304	0	1 180 821	1 180 821	0	1 180 821	0
Fair value hedge derivative financial instruments	11 926	11 926	0	11 926	0	17 992	17 992	0	17 992	0
Amounts due to customers, including:	34 341 447	34 333 077	0	0	34 333 077	36 329 411	36 369 470	0	0	36 369 470
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	11 228 294	11 219 570	0	0	11 219 570	12 326 483	12 341 423	0	0	12 341 423
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	485 457	485 457	0	0	485 457	444 058	443 976	0	0	443 976
Total financial liabilities	**42 233 184**	**42 001 584**	**0**	**560 215**	**41 441 369**	**46 586 968**	**46 443 460**	**0**	**1 545 812**	**44 897 648**

Other notes (cont.)

39. 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 Group 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 Group 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	Amount offset	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	0	537 524	394 626	3 221	211 011
Total	**537 524**	**0**	**537 524**	**394 626**	**3 221**	**211 011**

31 December 2017	Gross amount of financial recognised liabilities	Amount offset	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	0	561 536	394 669	86 599	170 329
Total	**561 536**	**0**	**561 536**	**394 669**	**86 599**	**170 329**

Other notes (cont.)

31 December 2016	Gross amount of recognised financial assets	Amount offset	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	466 709	0	466 709	281 151	32 251	175 177
Total	**466 709**	**0**	**466 709**	**281 151**	**32 251**	**175 177**

31 December 2016	Gross amount of financial recognised liabilities	Amount offset	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	1 546 166	0	1 546 166	1 467 053	144 469	42 587
Total	**1 546 166**	**0**	**1 546 166**	**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	Item from the statement of financial position	Carrying amount of financial statement position	Carrying amount of items not subject of disclosure in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	537 524	Assets from derivative financial instruments	537 524	**0**
FINANCIAL LIABILITIES				
Derivative financial instruments	561 536	Liabilities from derivative financial instruments	561 536	**0**

31 December 2016	Net carrying amount	Item from the statement of financial position	Carrying amount of financial statement position	Carrying amount of items not subject of disclosure in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	466 709	Assets from derivative financial instruments	466 709	**0**
FINANCIAL LIABILITIES				
Derivative financial instruments	1 546 166	Liabilities from derivative financial instruments	1 546 166	**0**

Other notes (cont.)

40. Transactions with related parties

The Parent Entity identifies the following related entities:

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

As a part of ordinary operations, a number of transactions were concluded with members of the Parent Entity's key personnel. The Parent Entity's key personnel include members of the Bank's Management Board and members of the Parent Entity's Supervisory Board, listed in note 1 to the consolidated financial statements. Transactions with members of the Parent Entity'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.

Other notes (cont.)

Consolidated statement of financial position items	Parent Entities		Members of the Group's and the Parent Entities' key personnel		Other related entities	
	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	2 587	13 343
Derivative financial instruments - assets	391 622	277 752	0	0	191	506
Loans and advances to customers	0	0	141	1 749	0	0
Other assets	42	95	0	0	867	1 325
Amounts due to banks and other monetary institutions	4 450 527	5 368 872	0	0	948 203	1 764 593
Derivative financial instruments - liabilities	446 847	1 477 686	0	0	1 605	2 009
Amounts due to customers	0	0	4 690	5 430	12	15 848
Subordinated liabilities	1 064 859	332 096	0	0	0	0
Other liabilities	25 478	26 383	0	0	137	580
Provision for liabilities and charges	2 551	2 407	10 479	8 400	0	1

Consolidated statement of profit or loss items	Parent Entities		Members of the Group's and the Parent Entities' key personnel		Other related entities	
	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
Interest income	164 329	188 466	24	50	158	10 367
Interest expense	-74 235	-79 627	-55	-52	-18 269	-23 495
Fee and commission income	1 415	1 490	6	8	3 485	5 569
Fee and commission expenses	-500	-1 181	-1	-2	-893	-2 673
Net income from financial assets measured at fair value through profit or loss and net foreign exchange result	1 169 306	-20 722	2	3	-1 375	-1 599
Result on sale of discontinued operations	0	33 751	0	0	0	0
General administrative expenses	-47 877	-23 454	-12 831	-13 057	-2 287	-6 362
Other operating income	544	694	0	0	2 966	13 156
Other operating expenses	0	0	0	0	0	-4

Contingent liabilities and assets	Parent Entities		Members of the Group's and the Parent Entities' key personnel		Other related entities	
	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	43 423	38 293
Guarantees received	76 492	77 483	0	0	22 462	13 422

Other notes (cont.)

Transactions with the Bank's parent entity comprised transactions aimed at providing financing for the Group'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 consolidated statement of profit or loss.

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

As at the date of these consolidated financial statements preparation, variable remuneration for the Management Board of the Parent Entity 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 Parent Entity Management Board, that is why the amount presented in the above table in line Provisions for liabilities and charges to Members of the Group's and Parent Entities' key personnel is only an estimation of the provision expense for the Parent Entity Management Board, according to terms defined in managerial contracts between Parent Entity and its Management Board in force for the year 2017.

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

Remuneration of members of the Group's key personnel	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
Remuneration of the Management Board (salary)	10 413	10 352
Remuneration of the Supervisory Board	2 418	2 596
Remuneration connected with employment termination	0	109
Variable remuneration of the Management Board paid in the current reporting period *	3 384	2 646
Total	**16 215**	**15 703**

* 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 Parent Entity may waive the non-compete clause within 30 days of the termination of the contract.

Other notes (cont.)

41. Events after the reporting date

Change in the Parent Entity's Supervisory Board

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

Changes in the Parent Entity's Management Board

On 27 February 2018 Łukasz Januszewski resigned from his position as Member of Parent Entity'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 Parent Entity. 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 Parent Entity on the Warsaw Stock Exchange. In the release dated 1 August 2017 PFSA informed that RBI should float shares in the Parent Entity on Warsaw Stock Exchange assuring their liquidity on the level 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 Parent Entity (excluding FX portfolio) to an investor. RBI's commitment to the Polish regulator to float shares in the Parent Entity on the Warsaw Stock Exchange can be satisfied either by selling at least 15 per cent of the Parent Entity's shares to free float shareholders through an IPO, or through a sale of the Parent Entity'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. Capital Group consolidated financial statements have occurred after the reporting date.

Risk management

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

In its activity, the Group follows an active approach to the risk management, involving its identification, measurement, monitoring and mitigating. The Group 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 Group 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 Group 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 Group.

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.

- 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

Risk management (cont.)

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

Risk management (cont.)

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 Group 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 Group 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 Group 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 Group is obliged to maintain additional equity amount of safety buffer amounted to 1.25 p.p:

- 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 Parent Entity in the year 2016 was identified by Financial Supervision Authority as other institution of system relevance and as a result since August 2016 the Group was imposed with a

Risk management (cont.)

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 Parent Entity 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	3 043 715	2 613 173
Market risk	Standard	29 495	44 066
Operational risk	Standard	259 066	271 001
Regulatory capital requirement		**3 332 276**	**2 928 240**
Own funds		**7 179 254**	**6 111 419**
Total capital ratio (%)		**17,24**	**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 6 114 581 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 14.68%, while the total capital ratio (TCR) was 17.24%, which means that the Group 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

Risk management (cont.)

Financial Supervision Authority after the inspection, the Group 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 Group of the actions addressing PFSA's recommendations presented after the inspection, the Group re-assigned 0% CCF to off balance exposures.

Change of currently used by the Group CCF of 0% to higher CCFs required by CRR Regulation, according to the Group's estimations, would result in the exposure to risk of PLN 1 939.7 million and would lower total capital ratio of the Group to 16.47%, and CET1 and Tier 1 rations to 14.03% as at the end of the year 2017. After introduction of CCF changes the Group 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 Group 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 Group 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 Group incurs or may incur as a result of realization of risks that occur in Group's operations or in its economic environment. The Group 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 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.

Internal capital is calculated based on the main types of risk the Group 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.

Risk management (cont.)

For the remaining identified types of risk, which are considered material, the Group 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 Group calculates a capital buffer added to the total of internal capital.

43. Credit risk

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

The aim of credit risk management is to increase the safety of the Group'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 Group's loan portfolio. With respect to individual customers, the Group 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 Group'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 Group 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 Group'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 the Group's own account and its customers behalf.

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

The Group 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.

Risk management (cont.)

In order to ensure independence of the credit risk assessments and quality of Group'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 Group'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 Group;
- monitoring of credit risk provisions levels,
- managing the portfolio of non-performing loans.

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

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 Group's portfolio management.

The Group 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 Group grants loans to customers characterized by high creditworthiness.

Retail customers' creditworthiness is assessed with the use of scoring cards. The Group grants loans to customers characterized by high creditworthiness. However, in order to reduce potential losses resulting from debt not being serviced, the Group 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 Group's interests. 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 Group.

The Group accepts the following collaterals in its credit process:

- residential real estate mortgage,
- commercial real estate mortgage,
- registered pledge,

Risk management (cont.)

- 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 Group 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 Group 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 Group usually utilizes its own estimations of parameters necessary for pricing purposes based on Group'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 Group 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

Risk management (cont.)

borrowers meeting certain credit criteria. The Group 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 Group'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 consoldiated statement of financial position							
Classes of maximum exposure with instrument types assigned to them	Amounts due from 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**
Cash and 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	**139 566**	**0**	**367 670**	**403 247**	**180 221**	**0**	**0**	**1 090 704**
Cash on current and term accounts with other banks	91 823	0	0	0	0	0	0	91 823
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 institutions bonds	0	0	349 523	0	152 118	0	0	501 641
Corporate bonds	0	0	2 027	0	28 103	0	0	30 130
Mortgage backed bonds	0	0	16 120	0	0	0	0	16 120
Exposures to customers	**0**	**0**	**67 219**	**134 277**	**277 162**	**32 413 326**	**0**	**32 891 985**
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	10 997 532	0	10 997 532
Loans and advances granted to small and medium 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 available for sale	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**	**202 572**	**202 572**
Total	**139 566**	**1 315 990**	**1 230 402**	**537 524**	**12 648 386**	**32 413 326**	**202 572**	**48 487 767**

Risk management (cont.)

As at 31 December 2016	Financial assets presented in the consolidated statement of financial position							
Classes of maximum exposure with instrument types assigned to them	Amounts due from 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**
Cash and 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	**334 563**	**0**	**8 831**	**283 186**	**0**	**0**	**0**	**626 580**
Cash on current and term accounts with other banks	292 234	0	0	0	0	0	0	292 234
Loans and advances granted to other banks	42 329	0	0	0	0	0	0	42 329
Derivative financial instruments	0	0	0	283 186	0	0	0	283 186
Corporate bonds	0	0	5 408	0	0	0	0	5 408
Mortgage backed bonds	0	0	3 423	0	0	0	0	3 423
Exposures to customers	**0**	**0**	**272 817**	**183 206**	**354 036**	**33 864 497**	**0**	**34 674 556**
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	10 342 216	0	10 342 216
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 available for sale	0	0	0	0	60 141	0	0	60 141
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**	**180 732**	**180 732**
Total	**334 563**	**1 731 869**	**8 047 342**	**466 709**	**7 962 555**	**33 864 497**	**180 732**	**52 588 267**

Maximum exposure to credit risk for off-balance sheet items amounted to:	**31 December 2017**	**31 December 2016**
Guarantees	2 118 321	1 928 262
Granted loan commitments	6 894 694	7 129 960
Total	**9 013 015**	**9 058 222**

Risk management (cont.)

Loan exposures to banks and customers as well as other financial assets presented in the consolidated 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:

As at 31 December 2017	Exposure amount			
	Analysed on an individual basis	Analysed on a collective basis	Total	Value of collateral reducing the maximum exposure to credit risk
Not overdue receivables without identified impairment	**208 073**	**30 699 306**	**30 907 379**	**14 845 327**
Amounts due from Central Bank and other banks	0	675 771	675 771	23 724
Individual customers	5 501	16 014 804	16 020 305	8 602 614
Micro customers	0	1 916 161	1 916 161	1 034 338
Large enterprises	0	10 617 055	10 617 055	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	202 572	0	202 572	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	**1 056 802**	**1 815 471**	**2 872 273**	**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	7 363	0	7 363	0
Total financial assets, gross	**1 264 875**	**33 906 259**	**35 171 134**	**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	**7 363**	**0**	**7 363**	**0**
Total financial assets, net	**639 789**	**32 651 832**	**33 291 621**	**16 732 234**

Risk management (cont.)

As at 31 December 2016	Exposure amount			
	Analysed on an individual basis	Analysed on a collective basis	Total	Value of collateral reducing the maximum exposure to credit risk
Not overdue receivables without identified impairment	**189 990**	**32 273 900**	**32 463 890**	**15 489 393**
Amounts due from Central Bank and other banks	0	1 395 205	1 395 205	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	9 883 698	9 883 698	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	180 732	0	180 732	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	**1 104 135**	**1 723 002**	**2 827 137**	**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	13 467	0	13 467	0
Total financial assets, gross	**1 303 116**	**35 871 604**	**37 174 720**	**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	**13 467**	**0**	**13 467**	**0**
Total financial assets, net	**668 517**	**34 775 336**	**35 443 853**	**17 551 189**

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

31 December 2017	Past due for					
Past due financial receivables without identified impairment	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 - past due but not impaired	**1 006 458**	**335 496**	**8 993**	**19 828**	**20 707**	**1 391 482**
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.)

31 December 2016	Past due for					
Past due financial receivables without identified impairment	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 - past due but not impaired	**1 383 144**	**427 037**	**3 501**	**3 223**	**66 788**	**1 883 693**
Amounts due from 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 Group did not identify impairment in individual analysis and exposures with overdue amount below limit set by the Group.

The following table presents credit quality of receivables neither past due nor impaired from Central Bank, other banks and the Group'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 Group 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 Group 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 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 Group 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, gross	31 December 2017				31 December 2016			
	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	37 696	0	37 696	0	225 025	0	225 025
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
A3	0	0	0	0	0	0	0	0
B1	0	0	0	0	0	0	0	0
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
C	0	0	0	0	0	0	0	0
Non-rated exposures	0	0	0	0	0	6 007	0	6 007
Total	**536 156**	**139 615**	**105 727**	**781 498**	**1 064 061**	**331 144**	**87 572**	**1 482 777**

Credit quality of financial assets neither past due nor impaired gross	31 December 2017			31 December 2016		
	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 gross	31 December 2017			31 December 2016		
	large enterprises	small and medium enterprises	Total	large enterprises	small and medium enterprises	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	1 468 024	90 968	1 558 992	1 243 557	108 393	1 351 950
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	**10 617 055**	**1 369 787**	**11 986 842**	**9 883 698**	**1 290 466**	**11 174 164**

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 Group:

- 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		
	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	278 761	278 761
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**	**292 017**	**15 666 547**

	31 December 2017			31 December 2016		
	to individuals	to micro customers	Total	to individuals	to micro customers	Total
5B	0	0	0	0	3	3
5C	0	9	9	0	13	13
6B	0	0	0	0	123	123
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		
	large enterprises	medium enterprises	public sector	**Total**	large enterprises	medium enterprises	**Total**
1.5	0	0	0	0	40	0	40
6.1	3 449	0	0	3 449	6 255	0	6 255
6.2	24 428	0	0	24 428	30 808	0	30 808
6.3	1 386	0	0	1 386	24 804	0	24 804
6.4	2 243	0	0	2 243	5 776	0	5 776
6.5	110	0	0	110	477	0	477
1C	8 406	0	0	8 406	0	0	0
2A	0	0	0	0	326	0	326
2B	63 448	0	0	63 448	5 021	0	5 021
2C	0	0	0	0	28	0	28
3B	7	0	0	7	292 680	0	292 680
4A	240	0	0	240	698	0	698
4B	3 280	5 049	0	8 329	1 948	3 349	5 297
4C	1 367	0	0	1 367	9 187	0	9 187
5A	6 531	0	0	6 531	3 456	0	3 456
5B	15 430	1 969	0	17 399	27 368	2 219	29 587
5C	38 227	0	0	38 227	32 726	0	32 726
6A	10 400	558	0	10 958	34 163	739	34 902
6B	16 657	469	0	17 126	151 308	475	151 783
6C	165 995	549	0	166 544	16 985	188	17 173
7A	2 648	1 979	0	4 627	2 022	428	2 450
7B	3 412	154	0	3 566	19 942	237	20 179
7C	52 617	178	0	52 795	43 295	387	43 682
8A	122	94	0	216	27	176	203
8B	136	475	0	611	51	72	123
8C	0	8	0	8	0	39	39
9B	0	10	0	10	0	19	19
10	3 209	468	0	3 677	16 986	0	16 986
B1	0	0	18 121	18 121	0	0	0
B3	0	0	0	0	15 005	0	15 005
B4	0	0	15 006	15 006	0	0	0
C2	33	0	0	33	0	0	0
C3	102	0	0	102	0	0	0
C4	117	0	0	117	0	0	0
C5	5	0	0	5	12	0	12
C6	1	0	0	1	7	0	7
C8	0	0	0	0	179	0	179
Non-rated exposures	1 451	682	16	2 150	56 199	111	56 310
Total	**425 457**	**12 642**	**33 143**	**471 242**	**797 779**	**8 439**	**806 218**

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 Parent Entities clients.

Structure of gross exposures by industrial sectors				
	31 December 2017		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	55,2%	20 410 226	55,2%
Wholesale and retail trade; repair of motor vehicles, motorcycles,	4 444 450	10,7%	3 971 528	10,7%
Manufacturing	3 108 877	8,3%	3 072 416	8,3%
Activities related to real estate	2 652 680	7,4%	2 732 544	7,4%
Construction	1 340 903	2,8%	1 020 482	2,8%
Financial and insurance activities	1 280 000	5,4%	2 000 561	5,4%
Information and communication	809 573	1,9%	497 577	1,3%
Transport and warehouse	735 425	1,5%	956 644	2,6%
Production and supply of electricity, gas, steam and air conditioning supply	663 937	2,6%	567 729	1,4%
Hotels and restaurants	428 498	1,3%	358 180	1,0%
Administration activities and supporting activities	319 802	1,0%	217 351	0,6%
Professional, scientific and technical activities	260 871	0,6%	717 736	1,9%
Other	565 426	1,3%	457 547	1,4%
Total	**34 961 200**	**100%**	**36 980 521**	**100%**

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 Group 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 2.9. 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**
Collective basis	**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 basis	**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**
Collective basis	**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 basis	**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**	**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	10 997 532	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**	**32 413 326**	**3%**	**416 911**

Risk management (cont.)

Net amount exposures				
31 December 2016	**Forborne**	**Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	529 955	19 631 840	3%	309 330
Micro customers	269 241	2 491 608	11%	93 669
Large enterprises	402 211	10 342 216	4%	306 872
Small and medium enterprises	9 613	1 311 710	1%	6 329
Public sector	0	87 123	0%	0
Total	**1 211 020**	**33 864 497**	**4%**	**716 200**

** the Group 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	**314 353**	**13 668**	**24 239**	**24 225**	**38 588**	**536 723**	**951 796**
Individual customers	5 249	6 613	15 944	15 847	14 123	133 278	191 054
Micro customers	1 587	2 541	8 295	5 990	7 696	169 096	195 205
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	**775 992**	**91 011**	**96 247**	**24 649**	**50 810**	**540 731**	**1 579 440**

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
Total	**828 554**	**161 581**	**135 679**	**39 336**	**29 368**	**547 158**	**1 741 676**

Changes in carrying amount of “forborne” loans and advances to customers during the year ended 31 December 2017 and 2016 are presented below:

Risk management (cont.)

	For the financial year ended 31 December 2017	For the financial year ended 31 December 2016
Net carrying amount at the beginning of year	**1 211 020**	**1 442 380**
Impairment allowances	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
Changes in the Group structure	0	-75 670
Net carrying amount at the end of year	**1 069 179**	**1 211 020**

Concentration limits

In order to diversify the credit risk, the Group 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 Parent Entity.

The Parent Entity 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 concentration limit	31 December 2017	31 December 2016
Bank exposure concentration limit (25%)	1 794 814	1 527 855

The Group 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 Group's equity are presented below – as at 31 December 2017 PLN 717 567 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**	**Entity / Group**	**% share**
1	Borrower 1	4 558 752	Entity	64%
2	Borrower 2	8 868 065	Group	124%
3	Borrower 3	8 642 421	Entity	120%

31 December 2016				
Customer No.	**Borrower name**	**Exposure**	**Entity / Group**	**% share**
1	Borrower 1	8 583 718	Group	140%
2	Borrower 2	8 329 279	Entity	136%
3	Borrower 3	7 393 915	Entity	121%
4	Borrower 4	657 590	Group	11%

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 Parent Entity. The share of loans denominated in CHF was equal to 28.03% of all loans of the Parent Entity 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 secured by mortgage 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 individuals and micro customers secured by mortgage by dpd (in PLN thous)	not overdue	Past due (DPD)			Total
		<1 - 90>	<91 - 180>	above 180	
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 Parent Entity. The analysis of the draft impact on the consolidated financial statements of the Group 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 Parent Entity's policy, the Parent Entity 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 Parent Entity to take all necessary actions. Existing Parent Entity's exposure is under constant monitoring and periodic reviews, including

Risk management (cont.)

detailed analysis of cash flows. All exposures from Wind farms segment are in the repayments period and are financed as a part of project finance. Parent Entity'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, Parent Entity 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 Parent Entity 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).

44. Liquidity risk

The main purpose of the liquidity risk management process is to develop a structure of balance sheet in Group that allows the Group to achieve profit targets defined in the financial plan and, at the same time, to maintain Group'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 Group defined in the Risk management strategy, approved by the Supervisory Board, the main indicators, which the Group intends to maintain on the appropriate levels, among others:

- The excess of the accumulated adjusted liquidity gap, constructed in accordance with the applicable Group'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 Group's reputational crisis,
- Holding of the internally defined buffers above the minimum levels of all supervisory liquidity ratios relating to the Group.

The managing of current and inter-day liquidity of the Group is performed by Liquidity Management Team. The level of mid-term and long-term liquidity risk incurred by the Group 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 Group'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 Group 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 Group 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 Group assumes the possibility of undisturbed operations in the horizon of a minimum of 30 days without having to take additional action.

In the Group, mid-term and long-term liquidity risk is managed by the Asset – Liability Committee (ALCO), which determines the desired structure of Group'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 Group's pricing and product policy, as an instrument that affects the structure of the Group'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							
			Contractual cash flows				
Type of liability	**Nominal amount**	**Book value**	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	**440 616**	**561 536**	**231 698**	**31 047**	**38 619**	**27 976**	**329 340**
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	**41 631 635**	**41 671 648**	**33 870 967**	**5 218 412**	**1 776 027**	**1 121 832**	**41 987 238**
Amounts due to banks and other monetary institutions	5 774 434	5 779 885	1 166 263	3 042 098	1 605 663	0	**5 814 024**
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	34 307 163	34 341 447	32 262 583	2 076 121	35 034	442	**34 374 180**
Subordinated liabilities	1 064 581	1 064 859	6 602	26 406	125 429	1 086 167	**1 244 604**
Other financial liabilities	485 457	485 457	435 519	73 787	9 901	35 223	**554 430**
Guarantee liabilities granted	**2 118 321**	**-**	**0**	**2 118 321**	**0**	**0**	**2 118 321**
Financial liabilities granted	**6 894 694**	**-**	**0**	**3 686 439**	**3 208 255**	**0**	**6 894 694**

31 December 2016							
			Contractual cash flows				
Type of liability	**Nominal amount**	**Book value**	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	**1 422 184**	**1 546 166**	**266 970**	**147 255**	**590 338**	**7 899**	**1 012 462**
Inflows	25 708 321	-	13 554 018	3 091 540	9 413 096	375 199	**26 433 853**
Outflows	27 130 505	-	13 820 988	3 238 795	10 003 434	383 098	**27 446 315**
Financial liabilities	**45 026 974**	**45 040 801**	**34 995 784**	**5 164 379**	**5 575 265**	**283 597**	**46 019 025**
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	36 324 355	36 329 411	34 297 908	2 345 517	63 505	340	**36 707 270**
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	444 058	444 058	382 703	7 717	21 578	32 060	**444 058**
Guarantee liabilities granted	**1 928 262**	**-**	**0**	**1 928 262**	**0**	**0**	**1 928 262**
Financial liabilities granted	**7 129 960**	**-**	**0**	**3 396 756**	**3 733 204**	**0**	**7 129 960**

The following table presents the cumulative liquidity gap of the Group including off-balance transactions (without credit lines).

Risk management (cont.)

	within 1 month	up to 3 months	up to 12 months	up to 2 years	up to 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".

The Group's activities are aimed at transforming the maturities of assets and liabilities to reflect the preferences of customers who place their deposits with the Group 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 Group's liquidity assessment and its exposure to changes in interest rates and foreign exchange rates.

45. Other market risks

45.1. 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 Group 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.

45.2. 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 Group 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.

Risk management (cont.)

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 Group has developed a system of market risk levels. As part of the division of responsibilities in the risk management process the Group's Management Board 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 Group's equity.

The Group's currency risk management policy assumes having a foreign exchange position, which enables the Group 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 Group 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 Parent Entity, measured by VaR method according to the above described parameters is presented in the below table:

Value at risk limit	31 December 2017				
	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 Group's own funds.

Daily reports on Group'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 Parent Entity.

As at 31 December 2017 and 31 December 2016 the Group carried out an analysis of the impact of changes in foreign exchange rates on foreign exchange positions of the Group for three foreign currencies

Risk management (cont.)

(EUR, CHF, USD), which have the largest open position. The results of this analysis are presented in the table below (in PLN thousand):

As at 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	-14 185	-14 169	-14 203	17	-17
USD	225	224	225	0	0
CHF	-75 766	-75 660	-75 872	106	-106
Total				**123**	**-123**

As at 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 Group'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 Group's result would decrease by PLN 123 thousand.

As at 31 December 2017, Group's net short currency position amounted to PLN 89 952 thousand, which constituted 1.25 % of Group's own funds (31 December 2016 net short currency position of the Group amounted to PLN 55 557 thousand, which was equal to 0.90 % of Group's own funds). The following table presents the Group's balance sheet and off-balance items by currency.

Assets, liabilities and off-balance items in foreign currencies and the Group's currency position					
As at 31 December 2017	**EUR**	**USD**	**CHF**	**Other**	**Total**
Components of currency position – assets	8 231 342	500 670	10 146 024	196 783	19 074 819
Components of currency position – liabilities	8 916 851	2 101 551	3 938 152	554 821	15 511 375
Off-balance components of currency position – amounts receivable	10 799 986	9 970 478	207 112	640 392	21 617 968
Off-balance components of currency position – amounts payable	10 128 662	8 369 372	6 490 750	282 202	25 270 986
Net long currency position (+)	**0**	**225**	**0**	**152**	**377**
Net short currency position (-)	**14 185**	**0**	**75 766**	**0**	**89 951**

Assets, liabilities and off-balance items in foreign currencies and the Group's currency position					
As at 31 December 2016	**EUR**	**USD**	**CHF**	**Other**	**Total**
Components of currency position – assets	8 196 124	517 692	12 174 196	215 508	21 103 520
Components of currency position – liabilities	8 611 992	1 776 804	4 422 048	397 563	15 208 407
Off-balance components of currency position – amounts receivable	10 850 430	9 618 640	824 926	613 002	21 906 998
Off-balance components of currency position – amounts payable	10 481 929	8 353 572	8 585 264	428 776	27 849 541
Net long currency position (+)	**0**	**5 956**	**0**	**2 171**	**8 127**
Net short currency position (-)	**47 367**	**0**	**8 190**	**0**	**55 557**

For period covered by these consolidated financial statements there were no significant changes in currency

Risk management (cont.)

risk management.

45.3. 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 Group.

The main objectives of interest rate risk management include identification of the areas in which the Group is exposed to interest rate risk and structuring of balance sheet, so that the maximum net interest income can be achieved.

The Group's policy on interest rate risk management assumes the existence of a system of internal transfer prices within the Group, 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 Group, a system of market risk levels has been developed. As part of the division of responsibilities in the risk management process the Parent Entity'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 Group'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 Group,
- 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 Group 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 Group'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 Group is exposed to and, if necessary, instructs the relevant units to take appropriate steps to mitigate it.

Risk management (cont.)

The Group 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 the Group 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 Parent Entity 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 the Parent Entity'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 the Parent Entity'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				
	Min.	Max.	Average	As at 31 December 2017	As at 31 December 2016
Banking book	5 067	13 426	10 195	7 991	6 238
Trading book	226	1 770	687	606	474

The Group 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.

Risk management (cont.)

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 Group 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 Group'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 Group's exposure to changes in interest rates is presented under "Derivative financial instruments" in "Assets and Liabilities".

Risk management (cont.)

Group's exposure to interest rate risk

As at 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	36 363	76 292	0	0	0	26 911	0	0	**139 566**
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 advances to customers	0	11 436 722	15 930 118	3 696 808	544 164	388 835	416 679	0	**32 413 326**
Other financial assets	202 572	0	0	0	0	0	0	0	**202 572**
Liabilities									
Amounts due to banks and other monetary institutions	20	2 904 673	2 864 760	0	0	0	10 432	0	**5 779 885**
Derivative financial instruments	561 536	0	0	0	0	0	0	0	**561 536**
Amounts due to customers	0	15 799 906	10 980 410	4 216 195	2 682 072	660 894	1 970	0	**34 341 447**
Subordinated liabilities	0	0	209 095	855 764	0	0	0	0	**1 064 859**
Other financial liabilities	485 457	0	0	0	0	0	0	0	**485 457**
Contingent liabilities									
Guarantee liabilities granted	2 118 321	0	0	0	0	0	0	0	**2 118 321**
Financial liabilities granted	6 894 694	0	0	0	0	0	0	0	**6 894 694**

Risk management (cont.)

Group's exposure to interest rate risk

As at 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	34 998	286 565	13 000	0	0	0	0	0	**334 563**
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	466 709	0	0	0	0	0	0	0	**466 709**
Investment securities	45 540	5 979 963	26 331	1 896 120	0	0	0	0	**7 947 954**
Loans and advances to customers	0	12 761 988	18 726 103	2 051 677	177 650	11 548	135 531	0	**33 864 497**
Other financial assets	180 732	0	0	0	0	0	0	0	**180 732**
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	1 546 166	0	0	0	0	0	0	0	**1 546 166**
Amounts due to customers	0	14 879 130	14 496 966	3 880 318	2 528 967	535 323	8 367	340	**36 329 411**
Subordinated liabilities	0	0	332 096	0	0	0	0	0	**332 096**
Liabilities from debt securities issued	0	0	0	501 830	0	0	0	0	**501 830**
Other financial liabilities	443 976	5	77	0	0	0	0	0	**444 058**
Contingent liabilities									
Guarantee liabilities granted	1 928 262	0	0	0	0	0	0	0	**1 928 262**
Financial liabilities granted	7 129 960	0	0	0	0	0	0	0	**7 129 960**

Risk management (cont.)

45.4. 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 Group 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 Group's operations by implementing effective mechanisms for the identification, assessment and quantification, mitigation, monitoring and reporting operational risk.

The Group's operational risk management policy should reflect the Group's operational risk profile and ensure that adequate measures are taken to:

- control the risk at an acceptable level adequate to the Group'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.

Group's operational risk appetite is defined as:

- the value of internal capital allocated to operational risk
- as 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 Group 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;

Risk management (cont.)

- actions are taken to reduce operational risk to an acceptable level.

In accordance with the Group's Operational Risk Management Policy, the following methods and tools for operational risk management are used in the Group:

- 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.