

Annual report

2018

Thanks to
SGB
Cooperative
Banks

 **Bank SA**

entrepreneurship and ingenuity
effective cooperations



Thanks to
SGB
Cooperative
Banks

efficient information flow
responsible decisions

dedication
and efforts

passion and talent



fruitful cooperation
best solutions

social
involvement

local action



Basic information about the Bank



Thanks to
**effective
cooperations**

Name, registered office, KRS, REGON, NIP

SGB-Bank Spółka Akcyjna operates as a joint-stock company, pursuant to the Law on the Operation of Cooperative Banks, Their Associations and Associating Banks, Banking Law and the Company Code. The table below presents the basic identification data of SGB-Bank S.A.

Table 1. Registration data

Company's name	SGB-Bank Spółka Akcyjna
Seat	Poznań
Address	ul. Szarych Szeregów no 23a city: Poznań, postal code: 60-462 post office: Poznań country: Polska
National Court Register (KRS)	0000058205
Statistical no. REGON	004848247
VAT no. NIP	7770005362

Composition of the Management Board and the Supervisory Board

The Management Board

From 01.01.2018 to 08.02.2018 the composition of the Management Board was as follows:

- Paweł Pyzik – Vice-President of the Management Board, acting as the President of the Management Board,
- Karolina Jankowiak – Vice-President of the Management Board,
- Ziemowit Stempin – Vice-President of the Management Board.

In furtherance of resignation from the position of the Vice-President of the Management Board acting as the President of the Management Board submitted by Mr. Paweł Pyzik, the Supervisory Board of SGB-Bank S.A., at the sitting held on 09.02.2018, entrusted the duties of

the President of the Bank's Management Board to Ms. Karolina Jankowiak – Vice-President of the Management Board, and temporarily delegated Ms. Leokadia Danuta Tołwińska from the Supervisory Board to the Bank's Management Board.

In the period from 09.02.2018 to 07.05.2018 the composition of the Management Board of SGB-Bank S.A. was the following:

- Karolina Jankowiak – Vice-President of the Management Board, acting as the President of the Management Board
- Ziemowit Stempin – Vice-President of the Management Board,
- Leokadia Danuta Tołwińska – Member of the Supervisory Board, delegated to the Management Board.

At the sitting on 16.04.2018, the Supervisory Board of SGB-Bank S.A. appointed Mr. Jarosław Dąbrowski Vice-President of the Management Board, acting as the President of the Management Board, effective as of 08.05.2018.

From 08.05.2018 to 16.09.2018 the composition of the Management Board was as follows:

- Jarosław Dąbrowski – Vice-President of the Management Board acting as the President of the Management Board,
- Karolina Jankowiak – Vice-President of the Management Board,
- Ziemowit Stempin – Vice-President of the Management Board.

At the sitting on 26.09.2018, the Supervisory Board of SGB-Bank S.A. Appointed Mr. Adam Chmielecki Vice-President of the Management Board. In the period from 01.10.2018 to 22.10.2018 the composition of the Management Board of SGB-Bank S.A. was the following:

- Mirosław Skiba – Vice-President of the Management Board acting as the President of the Management Board,

- Andrzej Chmielecki - Vice-President of the Management Board,
- Karolina Jankowiak - Vice-President of the Management Board,
- Ziemowit Stempin - Vice-President of the Management Board.

On 16.10.2018 the Financial Supervision Authority unanimously accepted the appointment of Mr. Mirosław Skiba to the position of the President of the Management Board of SGB-Bank S.A.

The respective decision was served on 23.10.2018. In the period from 23.10.2018 to 30.11.2018, the Management Board of SGB-Bank S.A. Was composed of:

- Mirosław Skiba - President of the Management Board,
- Andrzej Chmielecki - Vice-President of the Management Board,
- Karolina Jankowiak - Vice-President of the Management Board,
- Ziemowit Stempin - Vice-President of the Management Board.

In furtherance of resignation from the position of the Vice-President of the Management Board submitted by Ms. Karolina Jankowiak, from 01.12.2018 to 31.12.2018 the Management Board of SGB-Bank S.A. was composed of:

- Mirosław Skiba - President of the Management Board,
- Andrzej Chmielecki - Vice-President of the Management Board,
- Ziemowit Stempin - Vice-President of the Management Board.

In furtherance of resignation from the position of the Vice-President of the Management Board submitted by Mr. Ziemowit Stempin, the composition of the the Management Board by 31.01.2019 was as provided above.

For the purpose of completing the composition of the Management Board, the Supervisory Board of SGB-Bank S.A. decided to delegate Mr. Waldemar Zieliński from the Supervisory Board to the Management Board to temporarily fulfill the duties of a Member of

the Management Board - Vice-President of the Management Board, from 01.02.2019 to 10.02.2019.

Additionally, at the aforementioned sitting the Supervisory Board of SGB-Bank S.A. adopted Resolution no. 6/2019 dated 17.01.2019, appointing Mr. Karol Wolniakowski Vice-President of the Management Board by the end of the 2016-2020 term of office, effective as of 11.02.2019.

Considering the above, from 01.02.2019 to 10.02.2019, the composition of the Management Board was as follows:

- Mirosław Skiba - President of the Management Board,
- Andrzej Chmielecki - Vice-President of the Management Board,
- Waldemar Zieliński - Vice-President of the Management Board (Member of the Supervisory Board, temporarily delegated to fulfill the duties of a Member of the Management Board).

From 11.02.2019 the composition of the Management Board as was as follows:

- Mirosław Skiba - President of the Management Board,
- Andrzej Chmielecki - Vice-President of the Management Board,
- Karol Wolniakowski - Vice-President of the Management Board.

Further changes in the composition of the Management Board took place in April 2019. At the sitting on 20.02.2019, by virtue of Resolution no. 28/2019, the Supervisory Board appointed Mr. Błażej Mika Vice-President of the Management Board for the period by the end of the 2016-2020 terms of office; therefore, the present Management Board is composed of:

- Mirosław Skiba - President of the Management Board,
- Andrzej Chmielecki - Wiceprezes Zarządu,
- Karol Wolniakowski- Vice-President of the Management Board,
- Błażej Mika - Vice-President of the Management Board.

The Supervisory Board

The composition of the Supervisory Board of SGB-Bank S.A. in the period from 1 January to 31 December 2018 is presented in Table 2.

Table 2. The composition of the Supervisory Board of the 10th term of office

Supervisory Board Chairman	Sławomir Flissikowski	
Vice-Chair	Leokadia Danuta Tołwińska (delegated to the Management Board in the period from 09.02.2018 to 07.05.2018)	
Supervisory Board Secretary	Sebastian Nietyksza	
Supervisory Board Members	Jerzy Bibro Krzysztof Sadurski Waldemar Zieliński (Deputy Chair in the period from 09.02.2018 to 07.05.2018)	Zofia Kałek-Bazyluk Katarzyna Zimniak Ryszard Żuraw



Financial statements

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actions**

Opinion of the Independent Auditor on the examination of the annual financial statements

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To the Stockholders of SGB-Bank Spółka Akcyjna

Audit report of annual financial statements

Opinion

We have audited the accompanying financial statements of SGB-Bank Spółka Akcyjna (Bank), with its registered office in Poznań at Ul. Szarych Szeregów 23a, which comprise the introduction to the financial statements, the balance sheet as at 31 December 2018, the profit and loss account, the statement of changes in equity, the cash flow statement for the period from 1 January 2018 to 31 December 2018, and the supplementary information and explanations.

In our opinion, the enclosed annual financial statements:

- give a true and fair view of the financial position of the Bank as at 31 December 2018 and its financial performance and its cash flows for the year from 1 January 2018 to 31 December 2018 compliant with the applicable provisions of the Accounting Law of 29 September 1994 (consolidated text: Journal of Laws of 2019, item 351) and the adopted accounting policies,
- was prepared on the basis of properly maintained books of accounts, in compliance with the provisions of the chapter 2 of the Accounting Law,
- comply with regard to form and content with the law and statute of the Bank.

The opinion is coherent with the additional report for the Audit Committee issued on the date of this audit report.

Audit – Taxes – Outsourcing – Consulting
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Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa. Audit firm no. 4055.
General Partner: Grant Thornton Polska Sp. z o.o. The Management Board of the General Partner: Tomasz Wróblewski – President of the Management Board, Dariusz Bednarski – Vice-President of the Management Board, Jan Letkiewicz – Vice-President of the Management Board. Registered address: 61-131 Poznań, ul. Abpa Antoniego Baraniaka 88 E. VAT no. NIP: 782-25-45-999, statistical no. REGON: 302021882.
Bank account: 31 1090 1476 0000 0001 3554 7340. District Court Poznań-Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register (KRS), no. KRS 0000407558.



Basis for opinion

We conducted our audit in accordance with

- the Law on Registered Auditors, Registered Audit Companies and Public Oversight of 11 May 2017 (“the Law on Registered Auditors” – Journal of Laws of 2017, item 1089 as amended),
- National Standards on Auditing (KSB) in the meaning of International Standards on Auditing, adopted by the National Council of Statutory Auditors by virtue of Resolution no. 3430/52a/2019 dated 21 March 2019, and
- Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ L 158, 27.5.2014, p. 77 and OJ L 170, 11.06.2014, p. 66) (Regulation 537/2014).

Our responsibilities under those NSA are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Bank in accordance with the International Federation of Accountants’ Code of Ethics for Professional Accountants (“the IFAC Code”) as adopted by resolution no. 2042/38/2018 of 13 March 2018 concerning ethical standards of auditors adopted by the National Council of Statutory Auditors, and other ethical requirements that are relevant to our audit of the financial statements in Poland. During the audit, the key registered auditor and the registered audit firm remained independent of the Bank in accordance with the independence requirements set out in the Law on Registered Auditors and in Regulation 537/2014. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC’s Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud.

We made reference to the aforementioned matters in our examination of the annual financial statements as a whole, and we took them into account while formulating our opinion about the financial statements. The below summary contains our reaction to these types of risk, and if necessary, we present the most important observations relevant to these types of risk.

We do not provide a separate opinion on these matters.

Valuation of receivables	Procedures performed
<p>In the financial statements as at 31 December 2018 the Bank disclosed receivables from the financial, non-financial and budget sector in the total amount of PLN 5,354 M, i.e. 26% of total assets of the Bank as at the balance sheet date.</p> <p>The size and quality of the Bank’s portfolio of receivables reflect the scale and effectiveness of lending, and have a significant impact on the assessment of the financial statements as a whole.</p> <p>Receivables generate risk as early as upon granting a loan. Limiting the risk that the receivables disclosed in the balance sheet are non-existent requires proper designing and functioning of the loan granting process.</p> <p>Receivables are also exposed to the risk of impairment.</p>	<p>Within the framework of audit, and for the purpose of addressing the risk of overevaluating receivables disclosed in the Bank’s financial statements, we performed the following activities:</p> <ul style="list-style-type: none">• identifying, understanding and describing the loan granting process established by the Bank,• identifying the key controls established by the Bank for the loan granting process and verifying the effectiveness of the controls by carrying out compliance tests,• assessing the accounting policy in terms of creating specific provisions and receivables impairment write-offs, including policy compliance with the binding legal regulations and adequacy with the current structure of the Bank’s receivables portfolio.



The assessment of prerequisites of individual assets impairment and quantification of the impairment risk scale is expressed in specific provisions for exposure risks, created by the Bank's Management according to the accounting policy established on the basis of relevant regulations on bank operations.

Improper assessment and quantification of impairment risk, and inappropriate management of the risk related to the existence of receivables may lead to overevaluating receivables in the Bank's financial statements.

The main assumptions on the evaluation of receivables, including the issue of creating specific provisions and revaluation write-offs, and the scale of provisions and write-offs as at the end of 2018 and the previous year are presented by the Management in the Introduction to Financial Statements, and notes 8-10 of Additional information and explanations, respectively.

Additionally, we conducted the following procedures with reference to sample exposure cases:

- confirmation of the existence of receivables balances,
- verification of including individual credit risk exposures to risk categories established in relevant provisions for the needs of creating specific provisions and revaluation write-offs, including in particular the correctness of repayment timeliness and the economic and financial standing of debtors,
- analysis of methodology adopted to establish the level of specific provisions and write-offs, and their recalculation,
- assessment of the appropriateness of reducing specific provisions and write-offs due to the established securities,
- verification of the evaluation quality in terms of securities constituting the basis of reducing specific provisions and write-offs.

On the basis of the whole portfolio of receivables, we additionally conducted the following procedures:

- assessment of the appropriateness and completeness of calculating interest on receivables,
- analysis of the level of receivables compared to revenue disclosed in the Bank's financial statements

in relation to these receivables in 2018 on the background of the previous year.

Evaluation of debt securities

The carrying amount of debt securities disclosed in the financial statements as at 31 December 2018 amounted to PLN 13 285 M and constituted 65% of total assets of the Bank.

Assurance of the appropriateness of debt securities evaluation and of a proper presentation of evaluation results in the financial statements requires the Bank's Management to classify individual assets to a proper category to financial assets on the date of purchase, and to apply evaluation method adequate to the classification.

The issues that require special attention may be the lack of quotation on the active market for financial assets measured at fair value, and impairment for financial assets measured at adjusted purchase price with account for effective interest rate. Most of debt securities held by the Bank are instruments listed on active markets, and securities issued by banks, government and territorial self-government institutions constitute as much as 98% of these assets.

A safe structure of debt securities portfolio can reduce related risk.

Procedures performed

In the course of audit we assessed the accounting policy in the following scope:

- classification of individual debt securities to the category of financial assets,
- selection of evaluation methods within the framework of individual categories of financial assets.

Additionally, based on selected sample debt securities, we conducted the following procedures:

- assessment of the appropriateness of applying the accounting policy of the Bank in the scope of debt securities,
- verification of the fair value measurement appropriateness based on the debt securities quotations on active markets,
- verification of the appropriateness of selecting the evaluation method and assumptions of the measurement of debt securities fair value, where no active markets exist,
- verification of the evaluation appropriateness in the adjusted purchase price with account for effective interest rate,
- verification of recognizing the effects of evaluation of debt securities in profit or loss due to interest or as revaluation capital.



However, the value of this balance sheet item results in the significance of the risk of overevaluating debt securities for the assessment of financial statements as a whole.

In the Introduction to the Financial Statements, the Management described the evaluation method of individual financial assets categories, and in note 13 of Additional Information and Explanations – the structure of portfolio and reasons for changes in 2018 in comparison with the previous year.

Going concern

In the audited financial statements the Bank disclosed a net loss for 2018 of PLN 147 M. The difference in the value of provisions and revaluation disclosed in the profit and loss account for 2018 amounted to PLN 278 M and was higher than the value presented in 2017 by PLN 167 M.

Additionally, as at 31 December 2018 the Bank failed to meet the requirements of maintaining the Tier I ration and the total capital ratio at the minimum level established in the prudence principles binding for the Bank.

The Bank, as a participant of the SGB-Bank S.A. Cooperative Security System was obliged to develop and implement an Internal Recovery Plan for SGB-Bank S.A. Progress reports are periodically provided by the Bank to the Cooperative Security System.

The issues described above might indicate a threat to the continuing of operations as a going concern by the Bank in future. The aforementioned issues were subject to the Management's judgement in light of all information available as at the date of the financial statements, including information about additional issuance of stocks and Bank Securities after the balance sheet date, and are described in Note 1 of Additional Information and Explanations.

In consequence of the judgements made the Management developed financial statements with the assumption of going concern in the foreseeable future and lack of circumstances indicating respective threats. Relevant information is included in the Introduction to the financial statements.

Procedures performed

In the course of audit we planned and performed procedures aimed at assuring that the aforementioned circumstances do not prove a significant uncertainty concerning the Bank's capability of operating as a going concern. Within the framework of the aforementioned procedures:

- we analyzed the structure of the Bank's revenue and cost streams and changes in the structure in 2018 in comparison with the previous year to identify the main factors of net loss generating in 2018,
- we got familiar with the Bank's approach to the analysis and improvement in the Bank's risk management system, including in particular modifications in creating specific provisions for credit exposures,
- we analyzed the updated Strategy and Internal Recovery Plan, as well as the Bank's Financial Plan for 2019-2021,
- we got familiar with the Bank's financial result for the period from 1 January 2019 to 30 April 2019,
- we analyzed the events after 31 December 2018, including the paid-for issuances of the Bank's stocks and Bank Securities, and their impact on the property and financial standing of the Bank.

on the basis of the aforementioned procedures we made an overall assessment of the appropriateness of the Bank's Management's judgements in terms of continuing operations as a going concern.



Management's and Supervisory Board's Responsibility for the Annual Financial Statements

The Management Board of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of annual financial statements that give a true and fair view of the Bank's financial position and results of operations and cash flows, in accordance with the Accounting Law, implementing measures issued on the basis of the Accounting Law, the adopted accounting policies, the applicable laws and the Bank's statute.

The Management of the Bank is also responsible for such internal control as the Management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Bank's Management Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

According to the Accounting Law, the Management of the Bank and members of the Supervisory Board are required to ensure that the annual financial statements are in compliance with the requirements set forth in the Accounting Law. Members of the Supervisory Board are responsible for overseeing the financial reporting process of the Bank.

Auditor's responsibility for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the NSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these annual financial statements.

The scope of the audit does not cover an assurance on the Bank's future profitability or the efficiency and effectiveness of the Bank's Management Board conducting its affairs, now or in future.

As part of an audit in accordance with the NSA, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Management Board;
- conclude on the appropriateness of the Bank's Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Supervisory Board, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Report on operations

Other information comprise the Report on the Bank's operations for the operating year ended 31 December 2018 with a declaration on non-financial information mentioned in art. 49b clause 1 of the Accounting Law. The statement constitutes a separate part of the Report.

Responsibility of the Management Board and the Supervisory Board

In accordance with the Accounting Law and other binding legal regulations, the body liable for drawing up the report on operations is the Management Board of the Bank. Moreover, the Management Board and Members of the Supervisory Board of the Bank are obliged to ensure that the financial statement meets the requirements provided for in the Accounting Law.

Auditor's Responsibility

Our opinion about the annual financial statements does not cover other information and we express no assurance compliant with National Standards on Auditing. In connection with our audit of the annual financial statements, our responsibility is to read other information and, in doing so, consider whether it is materially inconsistent with the information in the annual financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated. If, based on the work performed, we identified a material misstatement in other information, we are obliged to inform about it in our audit report. In accordance with the requirements of the Law on Registered Auditors we are also obliged to issue an opinion on whether the Report on the operations has been prepared in accordance with the law and is consistent with information included in annual financial statements. Moreover, we were obliged to notify whether the Bank had prepared a declaration on non-financial information. Additionally, under art. 111a of the Banking Law of 29 August 1997 (consolidated text in: Official Journal of 2018, item 2187 as amended) ("the Banking Law"), it was our duty to examine information specified in art. 111a clause 2 of the Banking Law.



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Opinion on the activity report

In our opinion, the report on operations is drafted compliant with applicable regulations, i.e. art. 49 of the Accounting Law and art. 111a clauses 1 and 2 of the Banking Law, and complies with information included in the enclosed annual financial statements.

Moreover, based on our knowledge on the Bank and its environment, which we had acquired during the audit of the annual financial statements, we had found no material misstatements in the report on operations.

Information on drawing up a declaration on non-financial information

According to the requirements of the Law on Registered Auditors we inform that the Bank has drafted a declaration on non-financial information mentioned in art. 49b clause 1 of the Accounting Law as a separate part of the report on operations.

Report on other legal and regulatory requirements

Information on compliance with prudential regulations

The Bank Management is responsible for ensuring compliance of the Bank's operations with prudential regulations specified in separate provisions, and in particular for a proper determination of capital ratios.

Giving an opinion on respecting prudential regulations by the Bank was not the purpose of audit; therefore, we provide no opinion on this matter. Within the framework of auditing the financial statements of the Bank, we carried out procedures aiming at the identification of violating by the Bank of prudential regulations laid down in separate provisions, in particular in terms of the appropriateness of capital ratios established by the Bank in section 1 of Additional Information and Explanations to the enclosed financial statements, which could have significant impact on these statements.

As a result of auditing the enclosed financial statements we inform that as at 31 December 2018 the Bank infringed the requirements of maintaining the Tier I ratio and the total capital ratio at the level established in separate provisions.

In Note 1 to Additional Information and Explanations to the audited annual financial statements the Bank's Management presented information on the scale and reasons for the infringement, and measures taken to ensure the required level of equity.

We inform that, except for infringing by the Bank of requirements of maintaining the Tier I ratio and the total capital ratio at the required level, in the period from 1 January 2018 to 31 December 2018 we found no incidental infringements by the Bank of prudential principles set out in separate provisions, and in particular in respect of the appropriateness of establishing by the Bank of capital ratios as at 31 December 2018, which could have a significant impact on the audited financial statements.

Statement on the provision of non-audit services

To the best of our knowledge and belief, we hereby declare we did not provide services not being an audit that are prohibited by art. 136 of the Law on Registered Auditors and art. 5 clause 1 of Regulation 537/2014.

Appointment

We were selected to audit the annual financial statements of the Bank for 2017 and 2018 by virtue of the Bank's Supervisory Board resolution dated 19 September 2017. We have been continuously auditing financial statements of the Bank since the operating year ended 31 December 2016, i.e. for the three subsequent operating periods. We were appointed to audit the financial statements for 2016 separately from the subsequent appointment.

Elżbieta Grześkowiak

Certified Auditor no. 5014
Key Certified Auditor acting on behalf of
Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością sp. k.,
Poznań, ul. Abpa Antoniego Baraniaka 88 E, audit company no. 4055

Poznań, 15 May 2019

2. Balance sheet of the Bank – Assets

		31.12.2018	31.12.2017
I	Cash, funds in the Central Bank	1 114 746 599,81	891 233 181,55
	1. Current account	950 695 289,44	784 866 548,45
	2. Obligatory reserve	0,00	0,00
	3. Other funds	1006 649 909,48	106 366 633,10
II	Debt securities eligible for rediscounting with the Central Bank	0,00	0,00
III	Receivables from the financial sector	857 375 032,85	805 459 072,46
	1. Current account	393 221 902,99	364 894 460,67
	2. Term account	464 153 129,86	440 564 611,79
IV	Receivables from the non-financial sector	3 775 819 078,5	4 116 788 603,36
	1. Current account	227 052 556,36	298 722 431,84
	2. Term account	3 548 766 522,14	3 818 066 171,52
V	Receivables from the public sector	720 584 153,00	604 061 714,11
	1. Current account	40,70	40,70
	2. Term account	720 584 112,3	604 061 673,41
VI	Receivables under repurchase agreements	0,00	1 127 548,73
VII	Debt securities	13 284 955 233,78	12 368 124 672,57
	1. Issued by banks	3722 973 500,54	4 210 798 463,81
	2. Issued by central and local budgets	9243 829 853,47	7 749 384 152,90
	3. Other	318 151 879,77	407 942 055,86
VIII	Shares in subsidiaries	12 015 026,15	10 777 526,15
	1. In financial institutions	2 659 026,15	1 421 526,15
	2. In other entities	9 356 000,00	9 356 000,00
IX	Shares in jointly controlled entities	0,00	3 325 000,00
	1. In financial institutions	0,00	3 325 000,00
	2. In other entities	0,00	0,00
X	Shares in affiliates	0,00	0,00
	1. In financial institutions	0,00	0,00
	2. In other entities	0,00	0,00
XI	Shares in other entities	31 209 641,46	31 356 048,97
	1. In financial institutions	31 109 473,66	31 254 918,97
	2. In other entities	100 167,80	101 130,00
XII	Other securities and other financial assets	364 891 021,53	383 369 395,27

XIII	Intangible assets, of which:	38 728 053,52	36 487 561,94
	1. Goodwill	0,00	0,00
	2. Other intangible assets	35 572 871,6	24 372 188,37
	3. Expenses for intangible assets	3 155 181,92	12 115 373,57
XIV	Tangible fixed assets	87 528 640,47	89 444 115,01
	1. Real property	74 023 074,50	78 052 941,77
	2. Other tangible fixed assets	8 636 153,05	9 950 648,27
	3. Tangible fixed assets under construction	4 869 412,92	1 440 524,97
XV	Other assets	34 126 098,62	37 542 229,16
	1. Assets taken over held for sale	0,00	0,00
	2. Other	34 126 098,62	37 542 229,16
XVI	Prepayments	102 742 243,22	86 853 681,08
	1. Deferred tax assets	1 003 16 011,00	84 935 627,00
	2. Other prepayments	2 426 232,22	1 918 054,08
XVII	Called up share capital	0,00	0,00
XVII	Own shares	0,00	0,00
	TOTAL ASSETS	20 424 720 822,91	19 465 950 350,36

3. Balance sheet of the Bank - Liabilities

		31.12.2018	31.12.2017
I	Liabilities to the Central Bank	0,00	0,00
II	Liabilities to the financial sector	18 743 492 972,43	17 537 579 238,63
	1. Current account	4348 158 582,70	3 707 121 099,90
	2. Term account	14 395 334 389,73	13 830 458 138,73
III	Liabilities to the non-financial sector	671 495 135,07	787 461 791,61
	1. Savings accounts, including:	598 008 736,89	723 747 130,40
	a) current accounts	509 059 483,28	641 879 650,40
	b) term accounts	88 949 253,61	81 867 480,00
	2. Other, including:	73 486 398,18	63 714 661,21
	a) current accounts	60 021 582,70	58 204 037,77
	b) term accounts	13 464 815,48	5 510 623,44
IV	Liabilities to the public sector	24 042 404,38	21 038 783,58
	1. Current account	13 704 739,32	10 662 451,27
	2. Term account	10 337 665,06	10 376 332,31
V	Liabilities under repurchase agreements	0,00	0,00
VI	Debt securities issued	21 849 611,51	24 233 458,36
VII	Other liabilities due to financial instruments	100,00	38 196,84
VIII	Special-purpose funds and other liabilities	53 827 465,82	29 563 679,23
	1. Special-purpose funds	46 135,36	32 925,16
	2. Other liabilities	53 781 330,46	29 530 754,07
IX	Accruals and deferred income	3 190 691,77	5 700 113,60
	1. Accruals	677 207,45	689 818,06
	2. Negative goodwill	0,00	1 629 459,04
	3. Other prepayments	2 625 742,58	3 380 836,50
X	Provisions	81 523 548,30	76 344 024,44
	1. Deferred tax liability	67 939 667,00	63 542 136,00
	2. Other provisions	13 583 881,30	12 801 888,44
XI	Subordinated liabilities	183 921 036,36	188 549 298,34
XII	Share capital	303 846 600,00	303 846 600,00
XIII	Statutory reserve	241 672 330,09	240 029 461,79
XIV	Revaluation reserve	57 615 103,46	64 204 706,77

XV	Other reserves	185 718 128,87	184 075 261,87
	1. General banking risk reserve	72 845 763,25	72 845 763,25
	2. Other	112 872 365,62	111 229 498,62
XVI	Previous years profit (loss)	0,00	0,00
	1. Profit	0,00	0,00
	2. Loss	0,00	0,00
XVII	Net profit (loss)	-147 474 305,15	3 285 735,30
	TOTAL LIABILITIES	20 424 720 822,91	19 465 950 350,36
	SOLVENCY RATIO	12,35%	14,62%

4. Profit and loss account of the Bank

		31.12.2018	31.12.2017
I	Interest income	526 031 428,12	496 020 854,62
	1. From the financial sector	9 788 799,31	12 836 876,75
	2. From the non-financial sector	187 405 289,55	181 489 729,52
	3. From the public sector	23 113 253,75	24 354 520,72
	4. Fixed income securities	305 724 085,51	277 339 727,63
II	Interest expense	284 790 792,23	273 828 180,97
	1. From the financial sector	249 400 459,07	238 355 505,88
	2. From the non-financial sector	5 365 907,76	8 434 384,38
	3. From the public sector	220 705,89	527 696,81
	4. From securities	29 803 719,51	26 510 593,9
	<i>cost of issue of own securities</i>	7 851 453,62	6 852 398,98
	<i>costs of bonuses</i>	21 952 265,89	19 658 194,92
III	Net interest income (I-II)	241 240 635,89	222 192 673,65
IV	Commission income	49 838 130,48	47 041 763,21
V	Commission costs	8 638 903,90	7 802 434,57
VI	Net commission income (IV-V)	41 199 226,58	39 239 328,64
VII	Income from shares, other securities and other variable-yield financial instruments	663 943,69	914 418,94
	1. From subsidiaries	185 121,11	160 685,91
	2. From jointly controlled entities	0,00	0,00
	3. From associated entities	0,00	0,00
	4. From other entities	478 822,58	753 733,03
VIII	Trading income	-236 494,17	7 263 017,03
	1. Securities and other financial instruments	-236 494,17	7 263 017,03
	2. Other	0,00	0,00
IX	Foreign exchange result	20 722 099,06	15 138 354,14
X	Operating result	301 460 962,05	284 747 792,40
XI	Other operating income	17 785 458,24	29 385 347,86
XII	Other operating expenses	20 304 997,59	16 539 812,94
XIII	General administrative expenses	156 536 587,96	161 303 884,40
	1. Salaries	52 339 226,07	47 112 442,26
	2. Social security contributions and other benefits	13 819 191,85	12 598 086,66
	3. Other	90 378 170,04	101 593 355,48

XIV	Depreciation and amortization of tangible fixed assets and intangible assets	19 635 008,32	17 367 691,36
XV	Provisions and impairment losses	484 219 229,95	252 279 108,16
	1. Specific and general banking risk provisions	443 556 440,96	247 025 864,94
	2. Revaluation of financial assets	40 662 788,99	5 253 243,22
XVI	Reversal of provisions and revaluation	206 432 861,85	141 743 780,12
	1. Reversal of special-purpose provisions and general banking risk provisions	206 138 671,85	141 743 780,12
	2. Revaluation of financial assets	2 941 90,00	0,00
XVII	Net provisions and revaluation (XV-XVI)	277 786 368,1	110 535 328,04
XVIII	Operating result (X+XI-XII-XIII-XIV+/-XVII)	-155 016 541,68	8 386 423,52
XIX	Extraordinary gains/losses	0,00	0,00
	1. Extraordinary gains	0,00	0,00
	2. Extraordinary losses	0,00	0,00
XX	Gross profit (loss)	-155 016 541,68	8 386 423,52
XXI	Income tax	-7 542 236,53	5 100 688,22
XXII	Other compulsory charges decreasing profit (increasing loss)	0,00	0,00
XXIII	Net profit (loss)	-147 474 305,15	3 285 735,30

5. Off-balance items of the Bank

		31.12.2018	31.12.2017
I	Liabilities granted and received	634 027 197,49	823 633 583,64
	1. Liabilities granted:	606 766 740,87	803 693 430,53
	a) financial	572 465 960,03	761 268 622,43
	b) guarantee	34 300 780,84	42 424 808,1
	2. Liabilities received:	27 260 456,62	19 940 153,11
	a) financial	0,00	0,00
	b) guarantee	27 260 456,62	19940153,11
II	Liabilities due to buying and selling operations	112 644 032,55	78 631 537,62
III	Other	7 800 000,00	21 184 432,6
	Eligible amounts - error due to XSD structure	0,00	0,00

6. Statement of changes in equity of the Bank

		31.12.2018	31.12.2017
I	Opening balance of equity	665 894 473,00	709 850 277,00
	Adjustments for fundamental errors	0,00	0,00
II	Opening balance of equity, as adjusted	795 441 768,00	709 850 277,00
	1. Opening balance of share capital	303 846 600,00	248 207 300,00
	1.1. Changes in share capital	0,00	55 639 300,00
	a) increase	0,00	55 639 300,00
	issue of shares	0,00	55 639 300,00
	b) decrease	0,00	0,00
	redemption of shares	0,00	0,00
	1.2. Closing balance of share capital	303 846 600,00	303 846 600,00
	2. Opening balance of statutory reserve	240 029 462,00	225 613 906,00
	2.1. Changes in statutory reserve	1 642 868,00	14 415 556,00
	a) increase	1 642 868,00	14 415 556,00
	share premium	0,00	0,00
	profit distribution (statutory)	1 642 868,00	14415556
	profit distribution (above the statutory minimum)	0,00	0,00
	b) decrease	0,00	0,00
	loss coverage	0,00	0,00
	2.2. Closing balance of statutory reserve	241 672 330,00	240 029 462,00
	3. Opening balance of revaluation reserve	64 204 707,00	37 538 252,00
	3.1. Changes in revaluation reserve	-6 589 603,00	26 666 455,00
	a) increase	0,00	26 666 455,00
	b) decrease	6 589 603,00	0,00
	disposal or decommissioning of fixed assets	6 589 603,00	0,00
	3.2. Closing balance of revaluation reserve	57 615 104,00	64 204 707,00
	4. Opening balance of general banking risk reserve	72 845 763,00	72 845 763,00
	4.1. Changes in general banking risk reserve	0,00	0,00
	a) increase	0,00	0,00
	profit appropriation	0,00	0,00
	b) decrease	0,00	0,00
	4.2. Closing balance of general banking risk reserve	72 845 763,00	72 845 763,00

	5. Opening balance of other reserves	111 229 500,00	96 813 941,00
	5.1. Changes in other reserves	1 642 867,00	14 415 557,00
	a) increase	1 642 867,00	14 415 557,00
	profit distribution	1 642 867,00	14 415 557,00
	b) decrease	0,00	0,00
	loss coverage	0,00	0,00
	5.2. Closing balance of other reserves	112 872 367,00	111 229 500,00
	6. Opening balance of retained earnings (losses)	3 285 735,00	0,00
	6.1. Opening balance of retained earnings	3 285 735,00	0,00
	(-) adjustments for fundamental errors	0,00	0,00
	6.2. Opening balance of retained earnings, as adjusted	3 285 735,00	0,00
	6.3. Change in retained earnings	-3 285 735,00	0,00
	a) increase	0,00	0,00
	distribution of retained earnings	0,00	0,00
	b) decrease	3 285 735,00	0,00
	distribution of retained earnings	3 285 735,00	0,00
	6.4. Closing balance of retained earnings	0,00	0,00
	6.5. Opening balance of retained losses	0,00	0,00
	(-) adjustments for fundamental errors	0,00	0,00
	6.6. Opening balance of retained losses, as adjusted	0,00	0,00
	6.7. Change in retained losses	0,00	0,00
	a) increase	0,00	0,00
	loss brought forward to be covered	0,00	0,00
	b) decrease	0,00	0,00
	loss coverage	0,00	0,00
	6.8. Closing balance of retained losses	0,00	0,00
	6.9. Closing balance of retained earnings (losses)	0,00	0,00
	7. Net profit (loss)	-147 474 305,00	3 285 735,00
	a) net profit	0,00	3 285 735,00
	b) net loss	-147 474 305,00	0,00
	c) profit appropriation	0,00	0,00
III	Closing balance of equity	641 377 859,00	795 441 768,00
IV	Equity after profit distribution (loss coverage)	0,00	0,00

7. Cash flow statement of the Bank (indirect method)

		31.12.2018	31.12.2017
A	Cash flow from operating activities	210 039 680,35	-131 580 022,79
I	Net profit (loss)	-147474305,15	3 285 735,3
II	Total adjustments	357 513 985,50	-134 865 758,09
	1. Amortization and depreciation	19 635 008,32	17 367 691,36
	2. Net profit/loss on exchange differences	0,00	0,00
	3. Interest and shares in profits (dividends)	-663 943,69	-914 418,94
	4. Profit/ (loss) on investing activities	384 639,19	-5 913 835,96
	5. Change in provisions	5 179 523,86	24 997 870,53
	6. Change in debt securities	-911 327 691,93	-2 158 817 625,51
	7. Change in receivables from the financial sector	-65 395 116,99	64 194 199,49
	8. Change in receivables from the non-financial and public sectors	224 447 085,97	28 043 399,27
	9. Movements receivables under repurchase agreements	1 127 548,73	130 604,1
	10. Change in shares, other securities and other financial (trade) assets	-9 858 565,08	2 696 78766
	11. Change in liabilities to the financial sector	1 205 913 733,80	2 322 808 344,1
	12. Change in liabilities to the non-financial and public sectors	-112 963 035,74	-239 351 378,67
	13. Change in liabilities due to securities sold under repurchase agreements	0,00	0,00
	14. Change in liabilities due to securities sold	0,00	0,00
	15. Change in other liabilities	24 225 689,75	-14456618,56
	16. Change in accruals and prepayments	-17 642 890,05	-29630127,33
	17. Change in accruals and prepayments	-755 093,92	-136 769 696,84
	18. Other adjustments	-4 792 906,72	-9 250 952,79
III	Total net operating cash flow from operations (I±II)	210 039 680,35	-131 580 022,79
B	Cash flow from investing activities	7 006 690,14	-11 549 244,02
I	Inflows	10 104 645,51	19 936 343,02
	1. Sale of shares in subsidiaries	0,00	0,00
	2. Sale of shares in jointly controlled entities	0,00	0,00
	3. Sale of shares in associated entities	0,00	0,00
	4. Sale of shares in other entities, other securities and other financial assets (deposit)	0,00	0,00
	5. Sale of intangible assets and tangible fixed assets	9 440 701,82	19 021 924,08
	6. Other investment inflows	663 943,69	663 943,69
II	Expenses	3 097 955,37	31 485 587,04
	1. Sale of shares in subsidiaries	0,00	0,00

	2. Sale of shares in jointly controlled entities	0,00	0,00
	3. Sale of shares in associated entities	0,00	0,00
	4. Sale of shares in other entities, other securities and other financial assets (deposit)	-18 478 373,74	13 848 808,73
	5. Sale of intangible assets and tangible fixed assets	21576 329,11	17 636 778,31
	6. Other investment inflows	0,00	0,00
III	Net cash flow from investment (I-II)	7 006 690,14	-11 549 244,02
C	Cash flow from financial activities	-7 012 108,83	97 072 084,25
I	Inflows	0,00	97 072 084,25
	1. Long-term loans from other banks	0,00	0,00
	2. Long-term loans from institutions other than banks	0,00	0,00
	3. Issuance of debt securities for other financial institutions	0,00	0,00
	4. Increase in subordinate liabilities	0,00	41 432 784,25
	5. Net income from issuance of stocks and additional capital contributions	0,00	55 639 300,00
	6. Other financial inflows	0,00	0,00
II	Expenses	7 012 108,83	0,00
	1. Repayment of long-term loans to other banks	0,00	0,00
	2. Repayment of long-term loans to institutions other than banks	0,00	0,00
	3. Repurchase of debt securities from other financial institutions	0,00	0,00
	4. Other financial inflows	0,00	0,00
	5. Payment of liabilities from financial leasing	0,00	0,00
	6. Decrease in subordinate liabilities	7 012 108,83	0,00
	7. Dividend and other payments to owners	0,00	0,00
	8. Expenses related to profit distribution, other than payments to owners	0,00	0,00
	9. Acquisition of own shares	0,00	0,00
	10. Other financial expenses	0,00	0,00
III	Net cash flow from financial activities (I-II)	-7 012 108,83	97 072 084,25
D	Total net cash flow (A.III±B.III±C.III)	210 034 261,66	-46 057 182,56
E	Balance sheet change in cash, of which	210 034 261,66	-46 057 182,56
	change in cash due to exchange differences	0,00	0,00
F	Opening balance of cash	1 182 216 279,26	1 228 273 461,82
G	Closing balance of cash (F±D), of which	1 392 250 540,92	1 182 216 279,26
	restricted cash	0,00	0,00

