

Annual Report 2020





Share capital ownership structure/shareholders

Set up by cooperative banks, SGB-Bank SA has been operating since 1990 as an associating bank for a group of cooperative banks. As at 31 December 2020, there were 192 cooperative banks in the group.

SGB-Bank SA operates in the territory of Poland in cooperation with and for the benefit of SGB cooperative banks. It, at the same time, provides comprehensive banking services addressed to natural and legal persons and grants loans to finance business undertakings, mainly in the area of agriculture and food processing.

The strategic goal of SGB-Bank SA is to set up a modern group of banks, operating with the use of the cutting-edge banking technologies, competitive to commercial banking sector and operating based on long-term and successful cooperation with the cooperative banks that are the group members. In 2020, SGB-Bank offered the SGB Mobile application, SGB ID service, and other technological solutions available thanks to BS API to the customers of the Association and to the cooperative banks. We have adapted to the requirements of the contemporary world and to our customers’ needs by providing online access to many of our services, such as opening personal accounts, submitting credit applications, or making fast bank transfers.

The table below presents basic identification data of SGB-Bank SA.

The Management Board of SGB-Bank SA

Table 1. Registry data

Business name	SGB-Bank Spółka Akcyjna [joint stock company]
Seat	Poznań
Address	ul. Szarych Szeregów 23a, 60-462 Poznań
[National Court Register] KRS number	0000058205
[Business Statistical Number] REGON	004848247
NIP [Tax ID no.]	7770005362

As at 01.01.2020 the Management Board of SGB-Bank SA was composed as follows::

- Mirośław Skiba – President of the Management Board,
- Andrzej Chmielecki – Vice-President of the Management Board,
- Błażej Mika – Vice-President of the Management Board,
- Leokadia Danuta Tołwińska – Vice-President of the Management Board.

On 04.02.2020 the Financial Supervision Authority (KNF) unanimously granted its consent for appointing Ms. Leokadia Danuta Tołwińska for the position of a member of the Management Board of SGB-Bank SA competent for the supervision of the significant risk management in the operations of the Bank.

On 16 June 2020, the Supervisory Board chose the abovementioned composition of the Management Board for the next term – 2020–2024.

Organizational structure and branch offices

In accordance with the Charter, the scope of the Bank operations consists in serving the function of a bank affiliating cooperative banks, based on an affiliation agreement concluded with the Bank, providing comprehensive banking services addressed to natural and legal persons or unincorporated units, including business entities and self-government entities, and in offering other types of cooperation with cooperative banks (the shareholders) as well as undertaking initiatives for the development of cooperative banking.

The Bank executes its tasks via its Head Office and branch offices.

In 2020, the organizational units of the Head Office were classified within four divisions: the President of the Management Board, Business, Technology and Operations Division and Risk and Finance Division.

The organizational chart of SGB-Bank SA as at 31.12.2020 is appended to the Report as Appendix no. 1.

As of 01 January 2020, SGB-Bank SA operates out of 17 branch offices.

As a result of the overtaking of Bank Spółdzielczy in Przemków by SGB-Bank SA and because of the obligations related to the enterprise, a branch in Przemków was created on 2 May 2020. Consequently, the number of SGB-Bank SA branch offices increased to 18 as at 21 December 2020.

The list of branch offices as at 31.12.2020 is appended to the Report as Appendix no. 2.

The Supervisory Board of SGB-Bank SA

The Supervisory Board shall exercise regular supervision over all the sectors of the operations of the Bank.

In 2020, the Supervisory Board of SGB-Bank SA was composed as follows:

Shareholding structure

Table 2. Composition of the Supervisory Board

Chairman of the Supervisory Board	Sławomir Flissikowski	
Deputy Chairman	Katarzyna Zimniak	
Secretary of the Supervisory Board	Sebastian Nietyksza	
Members of the Supervisory Board	Jerzy Bibro Piotr Pniewski Halina Wilk	Zofia Kałek-Bazyluk Adam Trzos

As at 31 December 2020, the shares of the Bank were taken up by 234 business entities, including 192 cooperative banks affiliated with SGB-Bank, 38 cooperative banks non-affiliated with SGB-Bank SA, and 4 other business entities. The shares held by the said entities in the share capital of the Bank were as follows: 92.54%, 2.95%, and 4.17%. The remaining 0.34% of the share capital were the Bank’s own shares, purchased as a result of the overtaking of Bank Spółdzielczy in Przemków (previously an associated shareholder of SGB-Bank SA), on the basis of a decision of

the Bank Guarantee Fund of 28 April 2020 about the initiation of forced restructuring of that bank.

The GAS [General Assembly of Shareholders]

In accordance with the Charter of SGB-Bank SA, the General Assembly of Shareholders is convened by the Management Board of the Bank.

The records concerning the General Assembly of Shareholders are in the charter of SGB-Bank SA, which is published on the website <https://www.sgb.pl/bank-sgb/sgb-bank-s-a/statut-struktura-banku/>.

The Ordinary General Assembly of Shareholders took place on June 23. Moreover, on 21 April 2020, there was an Extraordinary General Assembly of the Shareholders of SGB-Bank SA.

Employment structure

As at 31 December 2020, there were 717 employees (709.35 FTE) in SGB-Bank SA, including the employees from Bank Spółdzielczy in Przemków, an enterprise which was overtaken by SGB-Bank SA on 2 May 2020, as a result of a decision of the Bank Guarantee Fund (Resolution no. 240/DPR/2020). The table below presents basic information pertaining to employment in the Bank in the last three years.

Table 3. Employment in SGB-Bank SA in the years 2018 to 2020.

	31 December 2018	31 December 2019	31 December 2020
Full-time basis	675.48	693.34	709.35
Number of employees	682	706	717

Table 4. Total employee rotation rate in SGB-Bank SA in 2018–2020.

	2018	2019	2020
Rotation rate	13.51%	14.11%	16.39%

The total rotation rate for Poland in recent years has been about 16%. The rate in SGB-Bank SA increased in 2020 because of:

- restructuring,
- looking for new competences, and
- employees going into retirement.

The most important achievements

“Evolution of mobile banking in SGB”

The slogan “Evolution of mobile banking” was coined in 2019 to aptly characterize the revolutionary changes that have allowed SGB cooperative banks to transform into innovative financial institutions which apply cutting edge technologies and attract wider and wider groups of customers.

“Evolution of mobile banking in SGB” was not a one-time IT event but an implementation process, gradually completed in consecutive SGB cooperative banks. All the e-wallets activated in SGB-Bank are an available option for all the Visa and Mastercard cards as well as debit and credit cards. Apart from the implementation of mobile payments, the “Mobile Acceleration” also encompasses:

- developing a BS-API platform,
- implementing the SGB Mobile application,
- launching the SGB ID service,
- implementing the SGB My Documents service based on a durable medium, and
- implementing product and service sales processes in remote channels – SGB Mobile and online banking (online card issuance, remote account opening, online credit, insurance sales).

In June 2020, we completed the process of implementing in cooperative banks all the available methods of mobile payment which are currently available on the Polish market. Since then,

customers of those banks have comprehensive access to such services and can choose a payment method suitable for their needs. Thereby, the SGB joined a leading group of commercial banks in Poland.

Another service launched within the framework of the “Mobile Acceleration” is SGB ID, which allows customers of most SGB cooperative banks to confirm their identity in electronic solutions offered by various suppliers. Moreover, SGB ID provides access to so-called e-administration, that is, a government portal which offers the services of the state administration and so-called e-office, via electronic channels.

All the services mentioned above and the “Mobile Acceleration” strategy become even more important in the context of the COVID-19 regulations. Customers have been informed about the option of not using cash transactions in order to decrease the risk of infection. At the same time, they have received tools which make it possible to pay with the use of smartphones, tablets, watches, and other devices which make use of mobile applications.

SGB-Bank continues the implementation of its 2021–2024 strategy. The aim of the associating bank is to provide the associated banks with solutions at the same or, in some aspects, higher standard than that of competitive services.

BS API

To design new solutions based on state-of-the art technologies and to implement them in the affiliated banks, SGB-Bank SA, in cooperation with BPS S.A., developed BS API.

BS API is an innovative platform that enables SGB banks:

- to offer access to BLIK, Google Pay, Apple Pay, Garmin Pay, and Fitbit Pay,
- to integrate many IT systems,
- implementing the SGB Mobile application,
- to launch on-line sales channels and to offer an overdraft with the use of a mobile application,
- to offer additional services, such as Autopay, Garmin Connect, Ecolitiq, etc.,
- to create a joint data warehouse,

- to launch the SGB ID service in cooperative banks, and
- to launch the SGB Documents service (durable medium for cooperative banks).

The creation of BS API was the breakthrough which enabled the integration of many different IT systems used by SGB cooperative banks. That put an end to the multiplicity of incompatible systems which was the main obstacle for the technological development of the cooperative banking. BS API was created for the banks and their customers. The platform enables the banks to make joint offers for customers and to use state-of-the-art mobile solutions in their banking services. The use of BS-API had a significant impact on the development of the SGB Mobile application in 2020.

The BS API platform provides services directly to the systems and solutions offered by particular banks and their suppliers. The BS API solution became one of the key architectural solutions in the IT infrastructure. The platform, developed as a part of open banking, is a vital foundation for the creation of services in remote channels.

SGB mobile application

In June 2020, we have launched a mobile application, SGB Mobile, for the Association banks. At the end of that year, 148 banks and nearly 70 thousand unique users were using that application. The application has many functionalities which meet the needs of a contemporary demanding customer. Apart from access to their accounts and card products – customers can check their transaction history and current balance, make transfers, add cards to mobile payment methods, and use BLIK – the application offers its users the ability to fully manage their cards. Users cancel a card, block a card, unblock a temporarily blocked card, assign a PIN to a card, or confirm online card transactions with 3D Secure. There are also additional functionalities. For example, our bank was the first in Poland and one of the first in Europe to introduce the functionality of subscription management. In the application, customers can monitor their cards added to cyclical payments in online stores like Allegro or Amazon. They can also manage recurring (cyclical) payments for Netflix, Spotify, HB GO, and similar services.

The application has a practical, universal interface, user-friendly and fully secure, in accordance with the Revised Payment Services Directive. It also offers logging in with the use of biometric

data. Additionally, the application was designed in compliance with the newest standards. It is easy to use, clear, and intuitive.

Its quality and functionalities have been appreciated by Polish experts. SGB Mobile was one of five applications nominated for the award for the best mobile application in the category of banking and finances in the prestigious Mobile Trend Conference competition, together with the applications of mBank, PKO BP, Millennium, and ZEN with Mastercard.

Mobile Account

Since 2020, SGB-Bank has been working intensely on the implementation of an Association offer of a mobile account available in a package together with a dedicated payment card and with online banking services. The mobile account will only be available in the mobile application for private customers aged 18 or over who do not have a personal account.

Identity will be verified on the basis of a scan of the identity card. The mobile account will be available in the mobile application in the second quarter of 2021. .

“We have everything!” campaign

In 2020, Bank carried out an advertising campaign for the SGB Mobile application which is a flagship product for private customers of the cooperative banks of SGB and SGB-Bank. The campaign was run mainly on the Internet, which is a natural environment for a mobile application. In that way, customers interested in advertising were directed right to the stores where they could download the application.

Both the quantitative (application downloads) and qualitative (consistent construction and augmentation of the image of SGB as a modern, mobile, technologically advanced brand) goals of the campaign have been reached.

The application has been installed over 100 thousand times in three months, and it gained 32.5 thousand unique users. The ads had over 88 million views.

The potential of the varied – with respect to their efficiency – tools selected for the campaign, that is:

- Facebook Ads,
- Google Ads, and
- Programmatic Display & Video 360

was fully utilized in the planned period of three months (November 2020–January 2021). The main campaign was supported with VOD spots on the main site of the onet.pl portal, which – given the epidemic situation – gave the campaign very wide reach, and with radio spots.

The promotion materials were also displayed in all the SGB cooperative banks which offered SGB Mobile.

The campaign was financed in accordance with the principles of the Association, from the budgets of SGB cooperative banks and of the associating bank.

Development of the SGB System

The main element of the operation model assumed by the Association is enabling cooperative banks to focus on their base business. Increasingly, the management of the supporting areas is delegated to the associating bank. For that purpose, SGB-Bank SA uses the SGB System, understood as a set of IT systems and services based on those systems, offered to the associated banks. In that model, a cooperative bank does not have to purchase IT systems or bear the costs of their maintenance. It receives ready-made solutions and only pays for the functions it uses.

The SGB Systems makes it possible to for cooperative banks to limit the time devoted to administrative activities, back-office tasks, and time-consuming IT work. Thanks to that, the banks can focus on business activity, and they are still free to construct price lists, shape relationships with customers, or manage their operations.

The SGB system prioritizes security, compliance with the business requirements, and architecture open to integration with systems from various suppliers. The System offers a wide range of operations, from a bank trading system, through innovative on-line banking and mobile services, to reporting support.

In 2020, five other cooperative banks implemented the SGB System. There are plans to include even more banks in the system in 2021 and the following years. As at 31 December 2020, the total of 29 banks used the solution offered to them by SGB-Bank SA.

AML service

In 2020, the AML service was launched, for banks using the SGB System. It is an innovative, comprehensive solution consisting of a set of modern IT tools and a package of operational and consultancy services. The banks which use the service receive ongoing support and access to a competency center of AML experts in SGB-Bank. With the use of modern technologies, we could automate and optimize the processes related to the prevention of money-laundering and of the financing of terrorism. The solution ensures a high level of security for financial flows and optimizes AML processes. The integration with the business processes of the bank shortens the customer service time. The ultimate goal is to unify the standards of the AML processes in the SGB Association with the use of the service.

SGB Platform

In 2020, SGB-Bank began the implementation of a multi-bank platform for supporting business processes initiated in various sales channels. The aim is for the SGB Platform to become the basic tool for consultants in the sales points of both SGB-Bank and all the interested SGB cooperative banks. The platform is also to be the engine for remote product sales initiated by customers from the mobile application and Internet banking. The SGB Platform will also be used for handling the processes of monitoring, restructuring, debt collection, insurance management, and credit documentation.

The first functionality implemented in 2020 was the management of the sales of checking and saving accounts for private customers in the branch channel. The new solution makes it possible to manage the whole process of the sales of the account together with a debit card and Internet banking in one system. The platform is used from the moment the product is offered to a customer, through the automatic evaluation of its risk and the preparation and sharing of documents, to the initiation of the products and services. Thanks to the implementation, the time required for

the opening of the account together with a card and online banking services is much shorter. In further steps, we will implement, among other functionalities, processes related to accounts for institutional customers and to credits. The SGB Platform has been offered to associated cooperative banks as an association service since May 2021.

Macroeconomic situation

World economy

In 2020, the most influential phenomenon in the global economy was the spread of COVID-19. The restrictions and sanitary regime related to the epidemic situation disturbed the economy. In order to alleviate the resulting problems, non-standard fiscal and financial policies had to be introduced.

In 2020, the GDP in the United States fell by 3.5%. The Federal Open Market Committee lowered the federal fund rates to the range of 0.00%–0.25%, and it decided to begin another program of quantitative easing of monetary policy and purchase of financial assets.

The economy also collapsed in the euro area. The pace of the changes of GDP was -3.3% a year already in the first quarter of 2020. In the second quarter, it reached -14.6%. In that situation, the Governing Council of the European Central Bank decided to provide impromptu liquidity support and to start purchasing financial assets. It announced the introduction of a pandemic program of easing the monetary policy – purchasing private and public securities worth EUR 1.35 billion. In December 2020, the scale of the so-called pandemic purchase program was increased to EUR 1.85 in total. The program is to be carried out until at least March 2022.

Table 5. Basic interest rates, as at 31 December 2020.

Central Bank	Bank of England	Bank of Switzerland	ECB	Fed
Basic interest rate	0.10%	(-)0.75-(-)0,25%	0,00%	0.00–0.25%
Date of the last change of the interest rates	March 2020	January 2015	March 2016	March 2020

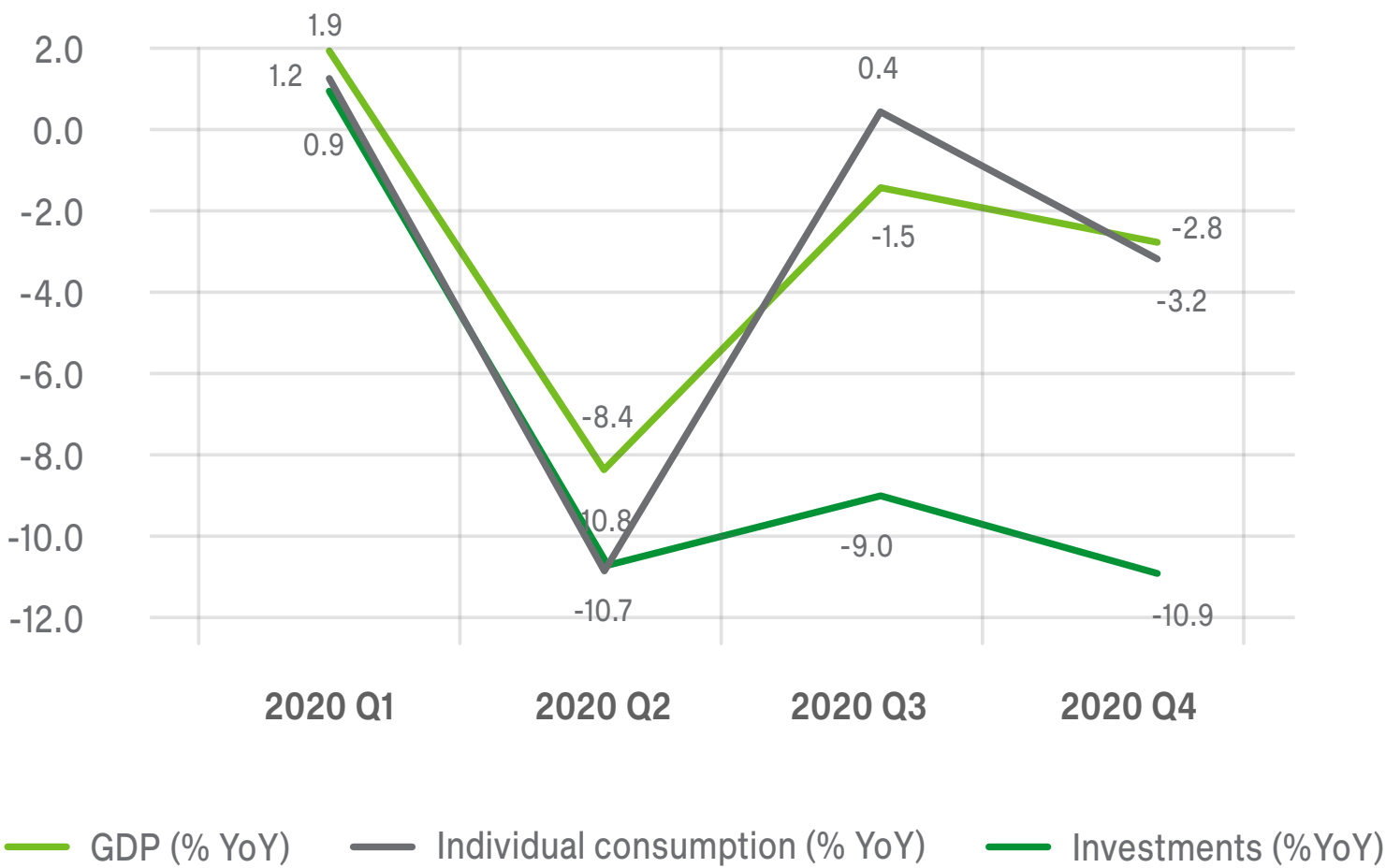
Polish economy

According to the preliminary estimate, the gross domestic product (GDP) in 2020 fell by 2.8 % as compared to 2019 (constant average prices of the previous year). Domestic demand decreased by 3.7%. Consumption fell by 1.5%, including a 3.0% decrease of household consumption. Gross capital formation decreased by 12.2%, including an 8.4% decrease of gross outlay for fixed assets.

New waves of SARS-CoV-2 infections necessitated the introduction of sanitary restrictions in Poland. Among other measures, the government significantly reduced the possibility of trading in stores, providing services, and doing business in the fields of tourism and recreation.

As a result, in 2020, the per annum growth of sales in industry slackened (for the first time since 2009) by 1.7% in comparison to 2019. According to the Central Statistical Office of Poland, after three years of growth, the construction and mounting production in Poland decreased in 2020, in comparison to 2019. The economic prospects for trade worsened. In 2020, retail sales per year fell for the first time in many years (by 3.8%). The falling trend was observed especially in the

Graph 1. Dynamics of selected macroeconomic indices in 2020 (%)



periods in which the scale of sales was negatively impacted by trade restrictions imposed on traditional stores because of the COVID-19 situation.

According to the Central Statistical Office of Poland, foreign trade turnover in current prices was PLN 1,051.9 billion for exports and PLN 998.3 billion for imports in 2020. The positive balance was PLN 53.7 billion (PLN 5.1 billion in 2019). The reason for that was the growing demand, especially external demand, for Polish industrial products.

Exports increased by 2.8%, and imports decreased by 2.0% per year. The data point to the great significance of international trade for the economic growth in Poland. The average employment in the business sector in 2020 was 1.1% lower than in 2019. The mid-year inflation rate in 2020 was 3.4%.

Financial services market in Poland

Monetary Policy Council lowered the interest rates of the National Bank of Poland during meetings on 17 March, 8 April, and 18 May 2020. The reference rate at the end of 2020 was 0.10%, the lombard rate – 0.50%, the deposit rate – 0.00%, the rediscount rate on bills of exchange – 0.11%, and the discount rate for promissory notes – 0.12%. The lowering of the basic interest rates of the National Bank of Poland entailed a decrease of the profitability of Polish treasury bonds and a lowering of the yield curve.

The Polish zloty exchange rate was mainly influenced by external factors, including the uncertainty about the course of the epidemic situation, which had an impact on risk aversion. The breakthrough for the foreign exchange market was the information about the completion of clinical studies, the introduction of COVID-19 vaccines on the market, and the beginning of mass vaccination. At the end of the year, the appetite for risk grew. The Monetary Policy Council indicated currency interventions as a monetary policy instrument to be used by the National Bank of Poland. The main index of the Warsaw Stock Exchange Index fell by 3.43% on a yearly basis. The WIG20 index was lower by 9.82 on a yearly basis.

Table 6. WIBOR rates and the yield from Polish debt securities 2019–2020 (%)

Date	31 December 2020	31 December 2019	Change (percentage points)
O/N	0.11	1.50	-1.39
1W	0.10	1.52	-1.42
1M	0.12	1.55	-1.43
3M	0.20	1.63	-1.43
6M	0.21	1.71	-1.50
9M	0.25	1.79	-1.54
12M	0.25	1.80	-1.55
Yield on 2-year bonds	0.09	1.48	-1.39
Yield on 5-year bonds	0.80	1.79	-0.99

Report of an independent statutory auditor



Report of an independent statutory auditor on the audit of the annual financial statement

For the Shareholders of SGB-Bank Spółka Akcyjna [joint stock company]

Report on the audit of the annual financial statement

Opinion

We have reviewed the annual financial statements of SGB-Bank Spółka Akcyjna (hereinafter the “Bank”) with the registered office in Poznań, ul. Szarych Szeregów 23a, including: introductory notes to the financial statements, balance sheet as of 31 December 2020, profit and loss account, statement of changes in shareholders’ equity, cash flow statement for the fiscal year ended on 31 December 2019 and additional information and explanatory notes.

In our opinion, the attached annual financial statement:

- truly and fairly reflect the assets of the Bank as of 31 December 2020 as well as the financial results and cash flows of the Bank for the fiscal year ended on 31 December 2019 in accordance with the provisions of the Law of 29 September 1994 - the Accounting Act (consolidated text: Journal of Laws of 2021, item 217 as amended) (the Accounting Act) and are consistent with the applied accounting principles (policy),
- have been drawn up on the basis of properly maintained books of accounts,
- the form and content thereof complies with applicable provisions of the law and the Bank charter.

This opinion is consistent with the additional report for the Audit Committee issued at date hereof..

Legal basis

We have carried out the audit in accordance with

- the Law of 11 May 2017 on statutory auditors, auditing companies and public supervision (consolidated text: Journal of Laws of 2020, item 1415 as amended) (The Law on statutory auditors),
- International Standards on Auditing in the version adopted as the National Standards on Auditing (NSA) by way of a resolution of the National Council of Statutory Auditors no. 3430/52a/2019 of 21 March 2019 as amended and
- The EU Regulation No. 537/2014 of the European Parliament and of Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing the Commission Decision 2005/909/EC (OJ UE L 158 of 27.05.2014, p. 77 and OJ EU L 170 of 1.06.2014, p. 66 (Regulation 537/2014).

In accordance with the aforementioned standards, our liability is specified in a further section hereof entitled *Liability of a statutory auditor for the audit of the annual financial statements*.

We are independent from the Bank in accordance with the *International Code of Ethics for Professional Accountants* (including the *International Standards of Independence*) of the International Ethical Standards of Accountants (IESBA Code), adopted by way of a resolution of the National Council of Statutory Auditors no. 3431/52a/2019 of 25 March 2019 as rules of professional ethics of statutory auditors, and in accordance with other requirements concerning professional ethics applicable to audits of annual financial statements in Poland. We have also fulfilled other obligations of professional ethics in accordance with the said requirements and the IESBA Code. In particular, carrying out the audit the key auditor and the auditing firm were independent from the Bank and, thus, met independence requirement following from the Law on statutory auditors and from the Regulation 537/2014. Moreover, we have fulfilled other obligations of professional ethics in accordance with the said requirements and the IFAC Code.

In our opinion, the documents we reviewed had provided sufficient and adequate basis to express our opinion.

Key issues of the audit

In our professional opinion, key issues of the audit are the most important information for the auditor's assessment of the annual financial statements drawn up for the current reporting period. Such information includes the identified, most significant risks of material misstatement, including the risk of fraudulent material misstatement. We have referred to those issues in the context of our overall audit of the entire annual financial statements and we have taken them into account while drafting our opinion about the statement. Below, we have also summarized our approach to the said risks, and, where appropriate, we have presented our most important observations concerning those risks. We have not expressed any separate opinion thereon.

Valuation of receivables

In its financial statements as of 31 December 2020, the Bank presented receivables due from the financial institutions, from the customers and receivables from the state budget, the total of which amounted to PLN 5,828 million. These receivables represented 23% of the assets of the Bank as at the balance sheet date. The receivables amounts and their portfolio reflect the scale and efficiency of loan granting operations of the Bank and significantly affect the evaluation of the entire financial statements.

Those receivables entail a risk that arises when a loan is granted. In order to reduce the risk that the receivables recognized in the balance sheet might be written off, the process of loan granting must be properly structured and secured. The receivables are also at risk of impairment. The assessment of whether the criteria of value impairment of individual

Opinion of the statutory auditor

Within the framework of the audit and to provide the answer how to prevent the risk of overestimation of the receivables presented in the financial statements of the Bank, we have performed the following acts:

- we have examined, analyzed and described the loan granting process, applicable in the Bank,
- we have identified key verification measures used by the Bank in the loan granting process and we have verified the efficiency of these measures through compliance tests,
- we have assessed the accounting policy in reference to the creation of special purpose funds and the recognition of write-downs on the receivables value, and also we have assessed the compliance of the accounting policy with the applicable laws and whether the accounting policy is proper in view of the current structure of receivables in the Bank portfolio.

items of receivables have been met and the assessment of the scale of risk of impairment is reflected in amounts allocated to special purpose funds for the risk related to loan repayment and write downs on the value of such receivables in view of the risk of their repayment, created by the Management Board of the Bank in accordance with the accounting policy, developed based on the provisions of the law applicable to the operations of banks. Improper evaluation of receivables and the scale of the risk of their value impairment as well as improper management of the risk related to the receivables may result in the overestimation of the receivables in the financial statements of the Bank.

In the Introduction to the financial statements and in notes 10-12 of the additional information and explanatory notes, the Management Board presented the main assumptions regarding the valuation of the receivables. It, furthermore, presented the created reserve funds and the write-downs made on the receivables value using the respective data as at the end of 2020 and 2018.

Moreover, with regard to the analysis of the selected sample of granted loans, we have applied the following procedures:

- we have confirmed the account receivable balances,
- we have verified whether relevant presented loans were properly classified into relevant risk categories identified in appropriate regulations on special purpose reserve funds (provisions) and write-downs, in particular, we have verified whether timely repayments of amounts receivable were properly evaluated and we have verified the financial and economic situation of the debtors,
- we have analyzed the methodology applied to calculate the amounts of special purpose reserve funds and write-downs and the methodology of used for their recalculation,
- we have evaluated whether the applied reduction of special purpose reserve funds and write-downs was justified in view of the securities lending arrangements made,
- we have verified the quality and pricing of the securities, based on which special purpose reserve funds and write-downs on the receivables value were reduced.

Additionally, taking into account the entire portfolio of the receivables, we have applied the following procedures:

- we have evaluated whether the interest accrued on the receivables was calculated properly and in full amounts,

Valuation of debt securities

The balance sheet value of debt securities presented in the financial statements as at 31 December 2020 amounted to PLN 18,033 million, which represented 71% of the total assets of the Bank.

To ensure the proper valuation of debt securities and adequate presentation of the results of such a valuation in the financial statements, the Management Board of the Bank needs to recognize individual items in the relevant categories of financial assets at the date of their acquisition or date when contracted and to respectively apply an adequate method of their valuation (pricing). Such issues as non-listing on the stock exchange – in case financial assets priced at fair value – or value impairment in case of financial assets priced at the adjusted purchase price with the account for the effective interest rate may require special attention. The majority of debt securities owned by the Bank is listed in the active financial markets, 96% of which are the securities issued by banks, government and self-government institutions. Safe structure of the debt

- we have analyzed the ratio between the receivables and the income presented in the financial statements of the Bank in view of the receivables recorded in 2020 and in 2018.

Opinion of the statutory auditor

While carrying out the audit we have reviewed the accounting policy in terms of:

- classification of particular items of debt securities into relevant categories of financial assets,
- selection of the pricing methods used for particular categories of the financial assets.

Moreover, with regard to the analysis of the selected sample of debt securities, we have applied the following procedures:

- we have evaluated whether the accounting policy of the Bank was applied properly in terms of classification of debt securities,
- we have verified whether the fair value was priced based on the listings of debt securities in active financial markets,
- we have verified whether proper pricing methods were selected and proper assumptions were adopted for the calculation of the fair value of non-listed debt securities,
- we have verified whether the pricing at the adjusted purchase price was applied properly with the account for the effective interest rate,

securities portfolio of the Bank may reduce the related risk. Nevertheless, this balance sheet item poses a significant risk of overestimation of debt securities in the overall evaluation of the entire financial statements.

In note 14 and 16 of the additional information and explanatory notes, the Bank presented the structure of its portfolio and explained changes therein made in 2020 as compared with 2019.

Continued business operations

The spread of SARS-CoV-2 pandemic is the circumstance that may pose a threat to the on-going business operations of the Bank in the foreseeable future. The Management Board of the Bank analyzed such a threat in the context of all available information as at the date of drawing up the financial statements. As a result thereof, the Management Board drew up the financial statements assuming that the Bank shall be able to be an on-going concern in the foreseeable future. The Management Board, further, concluded that the pandemic did not pose a threat to the continued business operations of the Bank, which information it included in the Introduction to the audited financial statements. The on-going concern assumptions have been described in note 65 to the financial statements.

- we have verified whether the effects of the pricing of debt securities were properly presented as the total accrued interest or as the revaluation capital.

Opinion of the statutory auditor

Carrying out the audit, we have planned and performed the procedures aimed to ensure that the indicated circumstances did not indicate any significant uncertainty regarding the on-going concern of the Bank. Within those procedures:

- we have discussed the influence of SARS-CoV-2 pandemic on the operations and business activity of the Bank with the Management Board,
- we have analyzed the financial subsidies for the customers of the Bank granted by the government,
- we have analyzed the number of requests for the suspension of repayments and the repayment amounts concerned, filed due to COVID-19 pandemic,

- we have analyzed conclusions regarding the continuation of business activity presented in the financial statements, including those concerning the influence of the SARS-CoV-2 pandemic on the operations of the Bank.

Based on the described procedures, we have made an overall assessment of correctness of conclusions drawn up by the Management Board of the Bank, regarding the ability of the Bank to continue its operations.

Responsibility of the Management Board and the Supervisory Board for the annual financial statements

The Management Board of the Bank is responsible for drawing up the annual financial statements based on the properly maintained books of accounts. The financial statements shall truly and fairly present the assets, financial results and cash flows of the Bank in accordance with the provisions of the Accounting Act, executive provisions based thereon, the adopted accounting principles (policy) and other applicable provisions of the law as well as with the Bank charter. The Management Board of the Bank is also responsible for the internal control that is necessary to draw up the annual financial statements without any material fraudulent or erroneous misstatement.

Drawing up the annual financial statements, the Management Board of the Bank is responsible for the assessment whether the Bank is able to continue its business operations, for disclosure of issues (if any) related with the continuation of business operations, and for the assumption of the on-going concern, except for the situation when the Management Board either intends to liquidate the Bank or to discontinue business operations or when there is no feasible alternative but for liquidation or discontinuance of the business operations.

Pursuant to the Accounting Act, the Management Board and the members of the Supervisory Board of the Bank are obliged to ensure that the annual financial statements meet the requirements specified in the Accounting Act. Members of the Supervisory Board are responsible for the supervision of the financial reporting of the Bank.

Liability of the statutory auditor for the audit of the annual financial statements

Our aim is to reasonably assure that the overall annual financial statements do not contain any material fraudulent or erroneous misstatement and to draw up a report on the audit with our opinion. Reasonable assurance refers to a high degree of certainty, yet, it does not guarantee that the audit carried out in accordance with NSA will always identify any existing material misstatement. Misstatements may be due to a fraud or an error and they are deemed material if it may be reasonably expected that such misstatements, separately or collectively, could affect business decisions made on the basis of the annual financial statements.

The scope of this audit cannot assure any future profitability of the Bank or the effectiveness and efficiency of running the business of the Bank by the Management Board either at present or in the future.

Carrying out the audit in according to NSA, we review the documents in compliance with the best professional practice, with the observance of the professional prudence as well as:

- we identify and evaluate risks of material misstatements in the annual financial statements due to a fraud or an error, we draft and carry out audit procedures adequate to such risks and we obtain evidence to base our opinion on sufficient and proper documentation. The risk that a material misstatement due to a fraud will not be identified is higher than the risk of a material misstatement due to an error because a fraud may be related to a collusion, forgery, deliberate omissions, misleading or circumvention of internal control;
- we cooperate with the internal control in the scope relevant for the audit in order to draft the procedures of the audit that are well-adjusted to the specific circumstances, however, our procedures are not intended to express our opinion on the efficiency of the internal control of the Bank;
- we evaluate whether the accounting principles (policy) are applied properly and whether accounting estimates and related thereto recognized amounts made by the Management Board of the Bank are reasonable.

- we evaluate whether the assumption of the on-going concern by the Management Board of the Bank was justified and, based in the collected accounting documents, we verify whether there is any significant uncertainty due to any events or circumstances that pose a threat to the continuation of business operations of the Bank. Should we come to the conclusion that there is such a significant uncertainty pertaining to the on-going concern, we are required to report it in our report on the audit of the annual financial statements or, should our findings be incorrect, we are required we modify our opinion. Our conclusions are based on the audited documentation which we had obtained prior to the date of drawing up the report on the audit by a statutory auditor, however, future events or circumstances may prevent the Bank from the continuation of its business.
- we evaluate the overall presentation, structure and content of the annual financial statements, including disclosed data, and we, further, review whether the annual financial statements fairly present business transactions and the circumstances thereof.

We provide the Supervisory Board with the information about, among others, the planned scope and dates of the audit and about any significant findings, including all and any identified by us during the audit significant flaws of the internal control.

We submit a declaration to the Supervisory Board, stating that we have complied with the relevant requirements of professional ethics concerning independence and we inform the Supervisory Board about any related and other issues which might be reasonably deemed as for a threat to our independence. Whenever applicable, we also inform the Supervisory Board about the applied security measures.

Out of the information provided to the Supervisory Board, we have indicated the issues that proved the most significant for the audit of the annual financial statements for the current fiscal year and we have deemed that information as key information for the audit. We present them in more detail in our report on the audit by a statutory auditor provided that the legal provisions or other regulations do not prohibit public disclosure of such information, in unusual circumstances, we shall find that such key information should not be presented in our report for the reason that it could be reasonably expected that the adverse effects of such a disclosure would counter balance any public interest resulting therefrom.

Other information, including the report on operations

Other information section includes the report on the operations of the Bank in the fiscal year ended on 31 December 2020 and a declaration on non-financial information specified in Art. 49B section 1 of the Accounting Act. It makes up a separate part of the report on the operations of the Bank.

Liability of the Management Board and the Supervisory Board

Under the Accounting Act and other applicable laws, the Management Board of the Bank bears liability for drawing up the report on the operations of the Bank. Moreover, the Management Board and the members of the Supervisory Board of the Bank are liable for the compliance of the report on the operations with the requirements specified in the Accounting Act.

Liability of a statutory auditor

Our opinion on the annual financial statements exclude the report on the operations and we refrain from expressing any opinion concerning the compliance of the report on the operations with NSA. Carrying out the audit of the annual financial statements, we were obliged to read the report on the operations of the Bank, and auditing the financial statements, we were obliged to verify whether the report is in any way significantly inconsistent with the annual financial statements or with our best knowledge we acquired during the audit or whether it might in any other way be significantly inconsistent. If, based on the audit works, we should confirm any material misstatements in the report on the operations, we are obliged to report it respectively in our report on the audit. Pursuant to the requirements of the Law on statutory auditors, it is our obligation to issue an opinion whether the report on the operations has been drawn up consistently with the information included in the annual financial statements. Moreover, we are obliged to provide the information whether the Bank has made a declaration concerning the non-financial data or not. Moreover, pursuant to Art. 111a section 3 of the Law of 29 August 1997 the Banking Law (consolidated text: Journal of Laws of 2020 item 1896 as amended) (The Banking Law), we are obliged to review the information specified in Art. 111a section 2 of the Banking Law.

Opinion on the report of the operations

In our opinion, the report on the operations was drawn up in accordance with the applicable provisions and complies with the provisions of Art. 49 of the Accounting Act and Art. 111a section 1 and 2 of the Banking Law and with the information included in the appended annual financial statements.

Moreover, we declare that, as per our best knowledge about the Bank and its environment that we acquired during the audit of the annual financial statements, we have not found any material misstatements in the report on operations.

Information about the declaration on the non-financial data

In accordance with the requirements of the Law on statutory auditors, we hereby provide the information that the Bank made a declaration on the non-financial information specified in Art. 49B section 1 of the Accounting Act. It makes up a separate part of the report on the operations.

Report on other requirements of the legal provisions and regulations***Information on the compliance with the prudence principles***

The Management Board of the Bank is liable for the assurance of compliance of the operations of the Bank with the prudence principles specified in separate provisions, in particular it is liable for proper assessment of capital ratios.

The purpose of the audit of the financial statements was not to draw up an opinion on the compliance by the Bank with the prudence principles, thus this audit refrain from any opinion thereon. Within the audit of the financial statements of the Bank, we have carried out procedures intended to identify any breaches by the Bank of the prudence principles specified in separate provisions, in particular to verify if the Bank has correctly assessed the capital ratios presented in Note 1 of the additional information and explanatory notes appended to the financial statements, which might have any significant impact on the financial statements.

Be informed that we have not found any breaches by the Bank - in the period from 1 January 2020 to 31 December 2020 - of the applicable prudence principles, in particular we have found no improper assessments of capital ratios by the Bank as at 31 December 2020, which might have any significant impact on the financial statements.

Declaration on the provided services other than the audit of the financial statements

In accordance with our best knowledge and belief, we represent that we have not provided any services other than the audit of the financial statements forbidden under the provisions of Art. 136 of the Law on statutory auditors and Art. 5 section 1 of the Regulation 537/2014.

Selection of the auditing firm

We were selected to carry out the audit of the annual financial statements of the Bank for the fiscal years 2019 and 2020 by the virtue of the resolution of the Supervisory Board of the Bank no. 81/2019 of 24 July 2019. We have been auditing financial statements of the Bank continuously from the fiscal year ended on 31 December 2016, i.e. for five financial years. For the audit of the financial statements for 2016, we were selected by way of a separate procedure, next we were selected for two year periods: 2017-2018 and 2019 and 2020.

Elżbieta Grześkowiak

Statutory auditor no. 5014

Key chartered auditor supervising the audit on behalf of
Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością sp. k.
Poznań, ul. Abpa Antoniego Baraniaka 88 E, auditing firm no. 4055

Poznań, 18 May 2021

Financial statements of SGB -Bank S.A. for 2020 in thousand PLN

Balance sheet – assets

Assets	31/12/2020	31/12/2019
Cash, funds in the Central Bank	721 991,1	1 548 623,7
In current account	576 820,2	1 439 270,0
Other funds	145 170,8	109 353,7
Receivables from the financial sector	1 397 840,3	1 080 027,6
In current account	668 249,6	615 455,3
Fix term deposits	729 590,7	464 572,3
Receivables from the non-financial sector	3 603 155,3	3 665 255,2
In current account	234 285,5	249 320,4
Fix term deposits	3 368 869,8	3 415 934,8
Receivables from the state treasury sector	827 048,6	811 010,3
Fix term deposits	827 048,6	811 010,3
Debt securities	18 033 092,3	15 776 734,2
Banks	4 849 978,0	4 475 374,0
Government and self-government institutions	12 173 256,6	11 074 146,7
Other issues	1 009 857,7	227 213,5
Shares in subsidiary entities	12 854,8	12 754,6
In financial institutions	3 498,8	3 398,6
In other entities	9 356,0	9 356,0
Shares in other entities	21 579,8	22 575,1
In financial institutions	21 466,9	22 474,9
In other entities	113,0	100,2
Other securities and financial assets	333 064,8	330 596,4
Intangible assets	59 790,7	48 330,2
Other intangible assets	53 754,1	38 079,8
Outlay for the intangible assets	6 036,6	10 250,4

Fixed tangible assets	87 137,1	90 062,3
Real estates	64 911,3	71 780,7
Other fixed assets	14 389,5	17 244,8
Fixed assets under construction	7 836,3	1 036,8
Other assets	10 665,5	10 792,3
Assets taken over - for sale	4 625,7	0,0
Other	6 039,8	10 792,3
Prepayments	113 581,8	105 864,9
Assets under deferred income tax	105 046,4	99 247,1
Other prepayments	8 535,5	6 617,8
Equity shares	1 402,8	0,0
TOTAL ASSETS	25 223 204,8	23 502 626,8

Financial statements of SGB -Bank S.A. for 2020 in thousand PLN

Balance sheet – liabilities

Liabilities	31/12/2020	31/12/2019
Liabilities towards the financial sector	22 556 658,7	21 436 910,2
In current account	6 677 219,7	4 845 336,7
Fix term deposits	15 879 439,0	16 591 573,5
Liabilities towards the non-financial sector	1 110 206,3	758 706,1
Saving accounts, in this:	1 011 942,5	683 781,8
a) current	926 084,3	553 888,8
b) fix term	85 858,2	129 893,0
Other, including:	98 263,8	74 924,3
a) current	80 505,3	61 217,9
b) fix term	17 758,5	13 706,4
Liabilities towards the state treasury sector	168 041,3	53 159,2
Current	40 713,7	21 783,5
Fix term deposits	127 327,6	31 375,7
Liabilities under debt securities issuance	17 645,9	19 707,1
Other liabilities under financial instruments	250,5	20,4
Special funds and other payables	215 273,4	69 292,5
Special funds	557,0	137,7
Other payables	214 716,4	69 154,8
Accruals and deferred costs	7 457,1	4 145,7
Accruals	1 843,3	622,6
Other accrued income	5 613,9	3 523,1
Provisions	85 965,6	81 662,5
Provisions under deferred income tax	70 382,0	67 233,9
Other reserve funds	15 583,6	14 428,6
Subordinated liabilities	281 826,3	316 953,1

Initial (share) capital	411 383,1	411 383,1
Supplementary capital	254 394,5	241 672,3
Revaluation reserve	55 599,8	45 326,6
Other reserve funds	50 965,8	38 243,8
Provision for the general banking risk	38 243,8	38 243,8
Other	12 722,0	0,0
Net profit (loss)	7 536,5	25 444,2
TOTAL LIABILITIES	25 223 204,8	23 502 626,8
SOLVENCY RATIO	15,95%	16,45%

Financial statements of SGB -Bank S.A. for 2020 in thousand PLN

Off balance sheet items

	31/12/2020	31/12/2019
Contingent liabilities granted and received	599 111,3	611 973,4
Liabilities granted:	574 553,5	598 763,5
a) financial	527 889,2	561 074,2
b) guarantees	46 664,3	37 689,3
Liabilities received:	24 557,9	13 209,9
a) financial	0,0	0,0
b) guarantees	24 557,9	13 209,9
Liabilities arising due to purchase/sale transactions	135 732,6	75 238,8
Other issues	4 500,0	6 000,0

Financial statements of SGB -Bank S.A. for 2020 in thousand PLN

Profit and loss account

	01/01-31/12/2020	01/01-31/12/2019
Income generated from the interest	437 198,8	554 570,6
Interest from the financial sector	5 363,6	9 909,0
From the non-financial sector	142 343,5	185 206,7
From the state treasury sector	16 300,7	25 401,7
Securities generating fixed amount of income	273 191,0	334 053,2
Cost of the interest	174 499,1	307 758,0
From the non-financial sector	141 571,4	270 478,5
Interest from the non-financial sector	3 799,9	5 210,7
From the state treasury sector	279,2	625,8
From the securities	28 848,7	31 443,0
cost of the issue of own securities	10 691,1	11 700,5
cost of [securities] premium	18 157,6	19 742,5
Financial result from the interest	262 699,7	246 812,6
Financial income from commission fees	54 826,9	53 351,8
Cost of commission fees	6 824,7	6 573,2
Financial result from commission fees	48 002,2	46 778,6
Income from shares, other securities and financial instruments of the floating income rate	713,7	713,5
from subsidiary entities	0,0	148,1
from other entities	713,7	565,4
Result of financial operations	-10 159,9	13 351,8
Securities and other financial instruments	-10 159,9	13 351,8
Foreign exchange result	23 469,1	19 591,4
Result of the banking operations	324 724,8	327 247,9
Other operating income	45 120,9	30 586,8
Other operating costs	38 462,8	29 444,2

Costs of the operations of the Bank	186 721,1	181 299,8
Remunerations	59 023,9	56 572,1
Insurance and other benefits	15 104,1	15 297,6
Other	112 593,2	109 430,1
Depreciation of fixed assets and amortisation of intangible assets	25 076,7	20 533,7
Write offs to reserves and impairment write downs	308 230,0	346 488,3
Write offs to special purpose reserves	304 701,6	332 368,9
Impairment write downs	3 528,4	14 119,4
Release of reserves and impairment write downs	-200 698,1	-255 696,8
Release of special purpose reserve funds	-200 697,8	-255 546,7
Release of provisions for the impairment of assets	-0,3	-150,1
Difference between the value of the reserve funds and the impairment value	107 531,9	90 791,5
Gross profit (loss)	12 053,2	35 765,5
Income tax	4 516,7	10 321,3
NET PROFIT	7 536,5	25 444,2

Financial statements of SGB -Bank S.A. for 2020 in thousand PLN

Changes in equity

	01/01-31/12/2020	01/01-31/12/2019
Equity capital at the opening balance	762 070,0	641 377,9
Share capital at the opening balance	411 383,1	303 846,6
Changes in the share capital	0,0	107 536,5
increases due to:	0,0	107 536,5
issuance of shares		107 536,5
Share capital at the closing balance	411 383,1	411 383,1
Supplementary capital at the opening balance	241 672,3	241 672,3
Changes in the supplementary capital	12 722,2	0,0
increases due to:	12 722,2	0,0
(statutory) distribution of profit	12 722,2	0,0
Supplementary capital at the closing balance	254 394,5	241 672,3
Revaluation capital at the opening balance	45 326,6	57 615,1
Changes in revaluation reserve	10 273,2	-12 288,5
increases due to:	10 273,2	0,0
pricing of the assets available for sale	10 273,2	0,0
reductions due to:	0,0	12 288,5
pricing of the assets available for sale	0,0	12 288,5
Revaluation capital at the closing balance	55 599,8	45 326,6
General banking risk reserve fund at the opening balance	38 243,8	72 845,8
Changes in the general banking risk reserve fund	0,0	-34 602,0
reductions due to:	0,0	34 602,0
coverage of losses	0,0	34 602,0
General banking risk reserve fund at the opening balance	38 243,8	38 243,8

Other reserve funds at the opening balance	0,0	112 872,4
Changes in other reserve funds	12 722,0	-112 872,4
increases due to:	12 722,0	0,0
distribution of profit	12 722,0	
reductions due to:	0,0	112 872,4
coverage of losses	0,0	112 872,4
Other reserve funds at the closing balance	12 722,0	0,0
Profit (loss) brought forward at the opening balance	25 444,2	-147 474,3
Profit brought forward at the opening balance	25 444,2	0,0
Change in the previous years' profit	-25 444,2	0,0
reductions due to:	25 444,2	0,0
allocation to the supplementary capital	12 722,2	0,0
allocation to the reserve capital	12 722,0	0,0
Profit brought forward at the closing balance	0,0	0,0
Loss brought forward at the opening balance	0,0	147 474,3
Change in the previous years loss	0,0	-147 474,3
reductions due to:	0,0	147 474,3
coverage of losses	0,0	147 474,3
Loss brought forward at the closing balance	0,0	0,0
Profit (loss) brought forward at the closing balance	0,0	0,0
Nett result	7 536,5	25 444,2
a) net profit	7 536,5	25 444,2
b) net loss	0,0	0,0
Equity capital at the closing balance	779 879,7	762 070,0

Financial statements of SGB -Bank S.A. for 2020 in thousand PLN

Cash flow statement

Cash flows in operating activities	01/01-31/12/2020	01/01-31/12/2019
Net profit (loss)	7 536,5	25 444,2
Total adjustments:	-872 631,4	263 255,1
Depreciation and amortisation	25 076,7	20 533,7
Profit (loss) due to foreign exchange rates	0,0	0,0
Interest and share in the dividend	-713,7	-663,9
Profit (loss) on investment activities	-1 949,0	384,6
Change in the reserves	-7 675,8	138,9
Change in the debt securities	-2 246 860,8	-2 490 828,1
Change in the receivables from the financial sector	-263 497,1	-125 609,2
Change in the receivables from the non-financial sector and state treasury sector	89 160,6	20 137,7
Change in shares, other securities and financial assets	775,9	-5 344,4
Change in the liabilities towards the financial sector	1 139 556,5	2 693 417,3
Change in the liabilities towards the non-financial sector and state treasury sector	263 481,3	116 327,7
Change in other liabilities	146 210,9	15 485,4
Change in accruals and prepayments	-6 496,2	-3 065,0
Change in future income	2 090,8	897,3
Other adjustments	-11 791,5	21 443,2
Net cash flows from operating activities	-865 094,9	288 699,3
Cash flows from investment activities		
Inflows	40 816,5	2 443,5
Sale of shares in other entities, other securities and financial assets	1 033,5	0,0
Sale of intangible assets and fixed tangible assets	29 112,3	1 779,6
Other investment income	10 670,7	663,9

Expenses	45 090,5	-1 351,6
Purchase of shares in subsidiary entities	100,2	0,0
Purchase of shares in other entities, other securities and financial assets	2 468,4	-34 294,7
Purchase of intangible assets and tangible fixed assets	42 522,0	32 943,0
Net cash flows from investment activities	-4 274,1	3 795,2
Cash flows from financial activities		
Inflows	134 240,0	238 426,0
Other financial income	134 240,0	130 889,5
Net inflows from the issue of shares and additional contributions	0,0	107 536,5
Expenses	37 188,0	0,0
Reduction in subordinate liabilities	37 188,0	0,0
Purchase of equity shares	0,0	0,0
Net cash flows from financial activities	97 052,0	238 426,0
Net cash flows in total	-772 317,0	530 920,5
Balance sheet change in cash	-772 317,0	530 920,5
including the change in cash due to exchange differences	0,0	0,0
Cash opening balance	1 923 171,1	1 392 250,5
Cash at the closing balance	1 150 854,1	1 923 171,1

