GETIN NOBLE BANK S.A. CAPITAL GROUP

Consolidated financial statements

for the year ended 31 December 2016

with the auditor's report

Warsaw, March 2017

Selected financial data

Consolidated income statement	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand	01.01.2016-31.12.2016 EUR thousand	01.01.2015-31.12.2015 EUR thousand
Net interest income	1,316,680	1,195,710	300,907	285,727
Net fee and commission income	126,387	326,849	28,884	78,104
Profit before tax	(22,712)	72,957	(5,190)	17,434
Net profit	(38,648)	54,345	(8,832)	12,986
Net profit attributable to equity holders of the parent	(42,338)	44,166	(9,676)	10,554
Total comprehensive income for the period	(102,771)	97,917	(23,487)	23,398
Net cash flows	278,786	(836,143)	63,712	(199,805)

Consolidated statement of financial position	31.12.2016 PLN thousand	31.12.2015 PLN thousand	31.12.2016 EUR thousand	31.12.2015 EUR thousand
Loans and advances to customers	46,665,793	49,225,014	10,548,326	11,551,100
Total assets	66,517,146	70,756,469	15,035,521	16,603,653
Amounts due to customers	53,041,128	55,726,221	11,989,405	13,076,668
Total equity	5,114,436	5,163,847	1,156,066	1,211,744
Tier 1 capital	4,967,093	5,054,315	1,122,761	1,186,041
Tier 2 capital	1,363,985	1,472,065	308,315	345,434
Total capital ratio	15.7%	14.3%	15.7%	14.3%
Number of shares *	883,381,106	883,381,106	883,381,106	883,381,106

* Number of shares for all reporting periods was presented after a share consolidation with a ratio of 3:1. As at 31 December 2015 number of shares before share consolidation was 2,650,143,319 shares.

The selected financial figures comprising the basic items of the consolidated financial statements have been converted into euro in accordance with the following principles:

- the items of assets, liabilities and equity have been converted in accordance with the average exchange rates announced by the National Bank of Poland as at 31 December 2016, i.e. 1 EUR = 4.4240 PLN and as at 31 December 2015, i.e. 1 EUR = 4.2615 PLN.
- the items of the income statement as well as the items of the statement of cash flows have been converted in accordance with exchange rates constituting arithmetic means of the average exchange rates established by the National Bank of Poland as at the last day of every month within 12-month period ended 31 December 2016 and 31 December 2015 (1 EUR = 4.3757 PLN and 1 EUR = 4.1848 PLN respectively).

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I. CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidated income statement

	Note	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
CONTINUED ACTIVITY			
Interest income	II.8	2,752,123	3,006,493
Interest expense	II.8	(1,435,443)	(1,810,783)
Net interest income		**1,316,680**	**1,195,710**
Fee and commission income	II.9	315,653	529,811
Fee and commission expense	II.9	(189,266)	(202,962)
Net fee and commission income		**126,387**	**326,849**
Dividend income	II.10	11,472	14,121
Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains	II.11	35,182	36,683
Result on other financial instruments	II.12	85,228	23,959
Result on investments in subsidiaries, associates and joint ventures	II.13	45,420	134,646
Other operating income	II.14	52,506	62,235
Other operating expense	II.14	(135,636)	(132,189)
Net other operating income and expense		**(83,130)**	**(69,954)**
Administrative expenses	II.15	(859,040)	(1,192,977)
Net impairment allowances on financial assets and off-balance sheet provisions	II.16	(659,554)	(430,013)
Operating profit		**18,645**	**39,024**
Share of profits/ (losses) of associates	II.27	(3,388)	11,667
Share of profits/ (losses) of joint ventures	II.28	304	22,266
Tax on certain financial institutions		(38,273)	-
Profit before tax		**(22,712)**	**72,957**
Income tax	II.17	(15,936)	(18,612)
Net profit/ (loss)		**(38,648)**	**54,345**
Attributable to:			
equity holders of the parent		(42,338)	44,166
non-controlling interests		3,690	10,179
Earnings/ (losses) per share in PLN:	II.18		
basic, for profit for the period attributable to equity holders of the parent		(0.05)	0.05
diluted, for profit for the period attributable to equity holders of the parent		(0.05)	0.05

In 2016 and 2015 there were no discontinued operations in the Group.

2. Consolidated statement of comprehensive income

	Note	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Net profit/ (loss) for the period		**(38,648)**	**54,345**
Items that will not be reclassified to profit or loss, of which:		**96**	**33**
Actuarial gains/ (losses)	II.39	118	41
Tax effect related to items that will not be reclassified to profit or loss	II.17	(22)	(8)
Items that may be reclassified to profit or loss, of which:		**(64,219)**	**43,539**
Valuation of available-for-sale financial assets		(94,024)	(3,439)
Cash flow hedges	III.7	14,744	57,189
Tax effect related to items that may be reclassified to profit or loss	II.17	15,061	(10,211)
Net other comprehensive income/ (loss)		**(64,123)**	**43,572**
Total comprehensive income/ (loss) for the period		**(102,771)**	**97,917**
Attributable to:			
equity holders of the parent		(106,461)	87,738
non-controlling interests		3,690	10,179

3. Consolidated statement of financial position

	Note	31.12.2016 PLN thousand	31.12.2015 PLN thousand
ASSETS			
Cash and balances with the Central Bank	II.19	3,152,195	2,724,472
Amounts due from banks and financial institutions	II.20	1,178,205	2,294,916
Financial assets held for trading	II.21	12,966	17,870
Financial assets measured at fair value through profit or loss	II.22	171,972	166,817
Derivative financial instruments	II.23	102,136	168,911
Loans and advances to customers and finance lease receivables	II.24	46,665,793	49,225,014
Financial assets, of which:	II.25	12,208,924	12,695,546
available-for-sale		12,006,283	12,541,224
held-to-maturity		202,641	154,322
Investments in associates	II.27	323,112	347,112
Investments in joint ventures	II.28	-	172,338
Intangible assets	II.29	290,226	268,547
Property, plant and equipment	II.30	284,216	307,678
Investment properties	II.31	721,534	695,152
Non-current assets held for sale	II.33	415,565	439,432
Income tax assets, of which:		345,191	336,030
receivables relating to current income tax		-	4,031
deferred tax assets	II.17	345,191	331,999
Other assets	II.34	645,111	896,634
TOTAL ASSETS		**66,517,146**	**70,756,469**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to banks and financial institutions	II.35	2,595,427	3,828,812
Derivative financial instruments	II.23	1,664,441	1,520,459
Amounts due to customers	II.36	53,041,128	55,726,221
Debt securities issued	II.37	3,819,593	4,093,061
of which subordinated debt		2,438,035	2,133,337
Other liabilities	II.38	256,075	401,006
Liabilities relating to current income tax		870	-
Deferred tax liabilities	II.17	3,942	-
Provisions	II.39	21,234	23,063
Total liabilities		**61,402,710**	**65,592,622**
Equity attributable to equity holders of the parent		**5,107,627**	**5,163,842**
Share capital	II.40	2,411,630	2,650,143
Retained earnings		170,918	78,878
Net profit/ (loss)		(42,338)	44,166
Other capital	II.41	2,567,417	2,390,655
Non-controlling interests		**6,809**	**5**
Total equity		**5,114,436**	**5,163,847**
TOTAL LIABILITIES AND EQUITY		**66,517,146**	**70,756,469**

4. Consolidated statement of changes in equity

2016	Attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Retained earnings	Net profit/ (loss)	Other capital			Total		
				Reserve capital	Revaluation reserve	Other capital reserves			
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 01.01.2016	**2,650,143**	**123,044**	**-**	**2,470,570**	**(120,796)**	**40,881**	**5,163,842**	**5**	**5,163,847**
Comprehensive income for the period	-	-	(42,338)	-	(64,123)	-	**(106,461)**	3,690	**(102,771)**
Distribution of last year profit	-	(2,372)	-	2,372	-	-	**-**	-	**-**
Reduction of the share capital of the parent company	(238 513)	-	-	-	-	238,513	**-**	-	**-**
Sale of non-controlling interests in a subsidiary	-	50,246	-	-	-	-	**50,246**	4,319	**54,565**
Deconsolidation of a subsidiary	-	-	-	-	-	-	**-**	(5)	**(5)**
Dividends for non-controlling interests	-	-	-	-	-	-	**-**	(1,200)	**(1,200)**
As at 31.12.2016	**2,411,630**	**170,918**	**(42,338)**	**2,472,942**	**(184,919)**	**279,394**	**5,107,627**	**6,809**	**5,114,436**

On 25 February 2016 the Financial Supervision Authority approved the changes to the Getin Noble Bank S.A. Articles of Association as regard the reduction the share capital by the amount of PLN 238,513 thousand, by reduction of the nominal value of one share from PLN 1.00 to PLN 0.91. The amount resulting from the share capital reduction was transferred to a separate reserve fund.

2015	Attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Retained earnings	Net profit	Other capital			Total		
				Reserve capital	Revaluation reserve	Other capital reserves			
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 01.01.2015	**2,650,143**	**418,458**	**-**	**2,130,687**	**(164,368)**	**40,881**	**5,075,801**	**191**	**5,075,992**
Comprehensive income for the period	-	-	44,166	-	43,572	-	**87,738**	10,179	**97,917**
Distribution of last year profit	-	(339,883)	-	339,883	-	-	**-**	-	**-**
Purchase of non-controlling interests in a subsidiary	-	(197)	-	-	-	-	**(197)**	(181)	**(378)**
Sale of non-controlling interests in a subsidiary	-	70,220	-	-	-	-	**70,220**	74,451	**144,671**
Settlement of loss of control over a subsidiary	-	(69,720)	-	-	-	-	**(69,720)**	(84,635)	**(154,355)**
As at 31.12.2015	**2,650,143**	**78,878**	**44,166**	**2,470,570**	**(120,796)**	**40,881**	**5,163,842**	**5**	**5,163,847**

5. Consolidated statement of cash flows

	Note	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Cash flow from operating activities			
Net profit		(38,648)	54,345
Adjustments:		1,473,421	(466,124)
Amortisation and depreciation	II.15	80,219	72,430
Share of (profits)/ losses of associates	II.27	3,388	(11,667)
Share of (profits)/ losses of joint ventures	II.28	(304)	(22,266)
(Gains)/ losses from investing activities		31,674	188,131
Interests and dividends		242,153	177,850
Change in amounts due from banks and financial institutions		967,774	(570,700)
Change in financial assets held for trading		4,904	(798)
Change in financial assets measured at fair value through profit or loss		(5,155)	3,554
Change in derivative financial instruments (assets)		67,166	79,199
Change in loans and advances to customers		2,559,221	(392,740)
Change in available-for-sale financial instruments		458,779	(1,139,120)
Change in held to maturity financial instruments		(12,486)	(3,009)
Change in other assets		251,523	(130,261)
Change in non-current assets held for sale		26,039	(420,000)
Change in amounts due to banks and financial institutions		(583,041)	(999,356)
Change in derivative financial instruments (liabilities)		155,534	823,185
Change in amounts due to customers		(2,685,093)	1,857,959
Change in debt securities issued		15,465	(10,230)
Change in other liabilities		(144,931)	(703)
Change in provisions		(1,733)	(1,502)
Other adjustments		46,674	7,041
Income tax paid		(13,019)	(11,384)
Income tax	II.17	8,670	38,263
Net cash flows used in operating activities		**1,434,773**	**(411,779)**
Cash flows from investing activities			
Sale of shares in a subsidiary/ associate/ joint venture		181,434	25
Sale of intangible assets and property, plant and equipment		78,501	19,007
Sale of investments in financial instruments		1,400	52,870
Dividends received	II.10	11,472	14,121
Acquisition of shares in a subsidiary		-	(179,414)
Purchase of intangible assets and property, plant and equipment		(197,459)	(442,017)
Purchase of investments in financial instruments		(37,233)	(67,403)
Interest received		4,343	3,495
Net cash flows from investing activities		**42,458**	**(599,316)**
Cash flows from financing activities			
Proceeds from issue of debt securities		340,000	1,724,733
Proceeds from loans taken		-	107,060
Redemption of issued debt securities		(628,933)	(1,360,185)
Payment of loans taken		(650,344)	(101,190)
Dividends paid to non-controlling interests		(1,200)	-
Interest paid		(257,968)	(195,466)
Net cash flows used in financing activities		**(1,198,445)**	**174,952**
Net increase/(decrease) in cash and cash equivalents		278,786	(836,143)
Cash and cash equivalents at the beginning of the period		3,088,854	3,924,997
Cash and cash equivalents at the end of the period		**3,367,640**	**3,088,854**

(data in PLN thousand)

II. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General information about the Bank

The parent of the Group is Getin Noble Bank S.A. ("the Bank", "the parent", "the Issuer"") with its registered office in Warsaw at 33 Przyokopowa Street, registered pursuant to the decision of the District Court of Warsaw, XII Commercial Department of the National Court Register on 25 April 2008 under entry No. 0000304735. The parent company has been granted with statistical number REGON 141334039. The legal basis for the Bank's activity is its Articles of Association drawn up in the form of a notarial deed of 5 March 2008 (as amended).

On 21 September 2016 the District Court of Warsaw, XII Commercial Department of the National Court Register made an entry concerning the registration of the consolidation of the shares of Getin Noble Bank S.A. The Court registered the shares consolidation by combining every 3 ordinary bearer shares with a nominal value of PLN 0.91 each, into one share of the new nominal value amounting to PLN 2.73, so that the exchange ratio was set as 3:1. Following this registration, the share capital of the Bank amounts to PLN 2,411,630 thousand and is divided into 883,381,106 shares of series A with a nominal value of PLN 2.73 each. The first quotation of the shares after the consolidation took place on 4 October 2016.

The ownership structure of significant batches of shares of the parent entity as of the date of these consolidated financial statements according to the information available to the Bank is as follows:

	Number of shares	Number of votes at AGM	% share in share capital	% share in votes at AGM
LC Corp B.V.	337,237,517	337,237,517	38.18%	38.18%
Leszek Czarnecki (directly)	88,208,870	88,208,870	9.99%	9.99%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	60,000,000	60,000,000	6.79%	6.79%
Getin Holding S.A.	66,771,592	66,771,592	7.56%	7.56%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	44,181,000	44,181,000	5.00%	5.00%
Other shareholders	286,982,127	286,982,127	32.48%	32.48%
Total	**883,381,106**	**883,381,106**	**100.00%**	**100.00%**

The parent company of the Bank and the Capital Group is Mr. Leszek Czarnecki, who directly and through his subordinated entities has 55.86% share in Getin Noble Bank S.A. Data on the shares held by Mr. Leszek Czarnecki and its subordinated entities are presented in the following table:

	Number of shares	Number of votes at AGM	% share in share capital	% share in votes at AGM
LC Corp B.V.	337,237,517	337,237,517	38.18%	38.18%
Leszek Czarnecki (directly)	88,208,870	88,208,870	9.99%	9.99%
Getin Holding S.A.	66,771,592	66,771,592	7.56%	7.56%
Fundacja Jolanty i Leszka Czarneckich	1,173,091	1,173,091	0.13%	0.13%
RB Investcom sp. z o.o.	33,950	33,950	0.004%	0.004%
Idea Money S.A. (former Idea Expert S.A.)	2,600	2,600	0.0003%	0.0003%
Total	**493,427,620**	**493,427,620**	**55.86%**	**55.86%**

(data in PLN thousand)

2. Management and Supervisory Board of the Bank

At the date of approval of these consolidated financial statements, composition of the management and supervisory board of Getin Noble Bank S.A. was as follows:

Management Board of Getin Noble Bank S.A.	
acting President of the Management Board	Artur Klimczak
Vice President of the Management Board	Jerzy Pruski
Members of the Management Board	Krzysztof Basiaga
	Marcin Dec
	Karol Karolkiewicz
	Radosław Stefurak
	Maciej Szczechura

Supervisory Board of Getin Noble Bank S.A.	
President of the Supervisory Board	dr Leszek Czarnecki
Vice President of the Supervisory Board	Remigiusz Baliński
Members of the Supervisory Board	Krzysztof Bielecki
	Mariusz Grendowicz
	Jacek Lisik

With effect from 7 June 2016 Mr. Grzegorz Tracz resigned from the position of Member of the Management Board of the Getin Noble Bank S.A.

On 14 December 2016 Mr. Krzysztof Rosiński resigned from the position of the President of the Management Board of the Bank with the effect from 9 January 2017. Simultaneously the Supervisory Board of the Bank appointed the Vice-President of the Management Board Mr. Artur Klimczak as President of the Management Board, if and with the effect from the date of giving consent to appointment of Mr. Artur Klimczak as President of Management Board by the Polish Financial Supervision Authority. At the same time the Supervisory Board appointed Mr. Artur Klimczak acting President of the Management Board as from 10 January 2017.

The Supervisory Board of the Bank appointed Mr. Krzysztof Rosiński as Vice-President of the Management Board, with the effect from 10 January 2017.

On 31 January 2017 the Supervisory Board of the Bank appointed Mr. Jerzy Pruski as Vice-President of the Management Board with the effect from 1 February 2017.

As of 6 February 2017 Mr. Krzysztof Rosiński resigned from position of the Vice-President of the Management Board.

In the 12-month period ended 31 December 2016 and until the date of approval of these consolidated financial statements there were no other changes in the composition of the Bank's Management Board and Supervisory Board.

3. Information about the Capital Group

Getin Noble Bank S.A. Capital Group ("the Capital Group", "the Group") consists of Getin Noble Bank S.A. as the parent entity and its subsidiaries. The Bank holds also an investment in an associate.

The entities comprising the Group have been incorporated for an indefinite term.

(data in PLN thousand)

The Group is active in the following areas of business:

- banking services,
- financial intermediary services,
- investment funds,
- brokerage services.

Getin Noble Bank S.A. is a universal bank offering numerous products in the area of financing, saving and investing as well as a wide spectrum of additional services which are provided to clients using a variety of channels, including traditional banking outlets and the Internet platform.

Retail banking is conducted under the Getin Bank brand, which specialises in customer deposits, as well as in sale of retail loans. Getin Bank offers also a number of investment products, it is also an active player in the segment of financial services dedicated to corporate clients, as well as local government units. Noble Bank represents the private banking segment, which is dedicated to wealthy clients.

The product offer of the Bank is supplemented by the products offered by its subsidiaries: Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A., Noble Securities S.A. brokerage house and Noble Concierge sp. z o.o. In co-operation with the above-mentioned companies, Getin Noble Bank S.A. provides its clients with access to brokerage and concierge services, investment fund units and certificates.

Presented below is information on subsidiaries included in these consolidated financial statements of the Getin Noble Bank S.A. Capital Group:

	% share in capital/ votes held by the Group	
	31.12.2016	**31.12.2015**
Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A.	70.03%	100%
Noble Securities S.A.	100%	100%
Noble Concierge sp. z o.o.	100%	100%
BPI Bank Polskich Inwestycji S.A.	100%	100%
Sax Development sp. z o.o.	100%	100%
Property Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych 1)	100%	100%
ProEkspert sp. z o.o. (former LAB sp. z o.o.)	100%	100%
ProEkspert sp. z o.o. sp. k. 2) (former LAB sp. z o.o. sp. k.)	100%	100%
Debtor Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	100%	100%
GNB Leasing Plan Ltd 3)	0%	0%

1) Property Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Non-public assets closed-end investment fund) holds 100% share in 9 special purpose entities.

2) Company has not yet started operations.

3) Special purpose entity, with which the Bank carried out a securitisation transaction; the Group does not hold any equity interest in the entity.

All subsidiaries are consolidated using the full method.

The Group holds 42.15% share in the equity of an associate Open Finance S.A. valued with the equity method.

Due to the substance of the relationship between Getin Noble Bank S.A. and a special purpose entity – GNB Leasing Plan Ltd with which the Bank carried out a securitization transaction, the entity has been consolidated using the full method, despite the fact that the Group does not hold any equity interest in the entity.

As at 31 December 2016 and 2015 the Bank's share in the total number of voting rights in its subordinated entities was equal to the Bank's share in share capital of the those entities.

3.1. Changes in the Capital Group in 2016

Sale of shares in Getin Leasing S.A.

On 10 February 2016 Getin Noble Bank S.A. signed with LC Corp B.V. agreement on sale of 50.72% of shares in joint venture Getin Leasing S.A. The transaction was closed on 29 February 2016.

The settlement of the Group's result on this transaction is presented in Note II.13.

Sale of shares in Noble Funds TFI S.A.

On 29 April 2016 the Bank executed a transaction of selling 3 packages of 9,993 shares in a subsidiary Noble Funds Towarzystwo Funduszu Inwestycyjnych S.A. representing a total of 29.97% of the company's share capital.

Sale of shares in Noble Funds TFI S.A. did not result in loss of control in the subsidiary, and the difference between the adjustment amount of the non-controlling interest and the fair value of the consideration received was included in the equity attributable to the equity holders of the parent.

Settlement of securitization transaction

In April 2016 the Bank completed the final settlement and closing of the securitization of its car loan portfolio concluded in December 2012 with the special purpose vehicle – GNB Auto Plan sp. z o.o. The transaction was settled according to the plan, the bonds issued by the company were redeemed, loans granted and securitization liability were fully settled and the Group has deconsolidated the subsidiary.

Acquisition of investment certificates of Debtor and Property Funds

In 2016 the Bank acquired 62,661 series B investment certificates issued by Debtor NS FIZ for PLN 62,652 thousand and 49,127 series F investment certificates issued by Property FIZAN for the amount of PLN 44,999 thousand. The Bank is the only investor in both funds.

4. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Management Board of the parent company on 13 March 2017.

5. Significant accounting policies

5.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and in areas not covered by the above standards in accordance with the Accounting Act of 29 September 1994 as amended and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official quotations market.

IFRS comprise standards and interpretations accepted by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

The Group applies "carve out" in IAS 39 endorsed by the European Commission Regulation as described in these financial statements.

5.2. Basis of preparation

In these consolidated financial statement a fair value model was adopted for investment properties and financial instruments measured at fair value through profit or loss, including derivatives and available-for-sale financial instruments, except those when fair value cannot be reliably measured. Investments in associates are valued according to the equity method. Other items of financial assets and liabilities (including loans and advances to customers) are recognised at amortised cost less impairment allowances or acquisition cost less impairment allowances.

These consolidated financial statements have been prepared based on the assumption that the Group entities would continue their activities in the foreseeable future, i.e. for a period of at least 12 months from the reporting date. As of the date of approval of these consolidated financial statements the Management Board of the Bank identified no circumstances which could threaten the continuity of the Group's operations.

On 23 September 2016 the Polish Financial Supervision Authority approved the document called *"Plan for a sustainable improvement in profitability of Getin Noble Bank S.A. The Recovery Program for 2016-2019"* ('the Plan', 'the PPN', 'the Recovery Program') being the recovery program within the meaning of Article 142 of the Banking Law. With the approval of the Plan submitted by the Bank, the Polish Financial Supervision Authority has identified several core parameters that will be monitored during the PPN implementation, i.e.: net financial result of the Bank, interest margin, level of loan write-offs, level of capital adequacy ratio and implementation of the strategy.

As of the end of 2016 the Bank satisfied the Supervision Authority requirements on thresholds for all indicators specified in the PPN.

The future financial results of the Bank may be affected by adoption from 1 January 2018 of International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9), which replaces present standard IAS 39 *Financial Instruments: recognition and measurement*.

The Group is currently in process of implementing new standard. Its final impact depends on the structure of assets as of the date of the first adoption of IFRS 9, and the adjustments for changes in accounting policies are to be recognised in the Group's equity. As of the date of these financial statements it is impossible to reliable estimate the impact of IFRS 9, primarily due to ongoing work on new credit risk models tailored to the requirements of new standard. Moreover, there are no updated prudential requirements that will be binding for the Group and there is no clear interpretation of the new regulations and market practice.

At the same time, it is possible to implement regulatory solutions related to currency conversion, foreign exchange spreads or the introduction of new additional capital surcharges for indexed/ denominated mortgage loans, which may also have a negative impact on the Group's financial position.

If the effect of the above factors result in the decrease of capital adequacy ratio or other parameters specified in the PPN below its threshold values, the Bank is obliged to update the PPN and increase its own funds.

5.3. Entity entitled to audit financial statements

The entity entitled to audit consolidated financial statements is Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw.

5.4. Functional and reporting currency

These consolidated financial statements are presented in the Polish currency (PLN) and all the figures, unless otherwise stated, are expressed in PLN thousands. Polish zloty is the functional currency of the parent company and the other entities included in the consolidated financial statements and the reporting currency of the consolidated financial statements.

5.5. Changes in the applied standards and interpretations

Standards and interpretations applied for the first time in the Group's financial statements for 2016

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations applicable for annual periods beginning on or after 1 January 2016, as follows:

– Amendments to IFRS 10 *Consolidated financial statements*, IFRS 12 *Disclosure of interests in other entities* and IAS 28 *Investments in associates and joint ventures* – Investment entities: applying the consolidation exception, as adopted by EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
– Amendments to IFRS 11 *Joint Arrangements* – Accounting for acquisitions of interests in joint operations – as adopted by EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
– Amendments to IAS 1 *Presentation of financial statements* – Disclosure initiative – as adopted by EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
– Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – Clarification of acceptable methods of depreciation and amortisation – as adopted by EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
– Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* – as adopted by EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
– Amendments to IAS 19 *Employee Benefits* – Defined Benefit Plans: Employee Contributions – as adopted by EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
– Amendments to IAS 27 *Separate financial statements* – Equity method in separate financial statements – as adopted by EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016).
– Amendments to IFRS *Annual Improvements to IFRSs (2010–2012 Cycle)* – amendments made as part of the process of making annual improvements to IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) aimed mainly at eliminating any inconsistencies and clarification of wording – as adopted by EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
– Amendments to IFRS *Annual Improvements to IFRSs (2012-2014 Cycle)* – amendments made as part of the process of making annual improvements to IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) aimed mainly at eliminating any inconsistencies and clarification of wording – as adopted by EU on 15 December 2015 (effective for annual periods beginning on or after 1 January 2016).

Application of the above changes to the standards had no significant impact on the Group's consolidated financial statements for 2016.

New standards and amendments to existing standards published and adopted by the EU, but are not yet effective

Approving these consolidated financial statements, the following new standards and amendments to existing standards were issued by the International Accounting Standards Board (IASB) and adopted by the EU, but are not yet effective:

- IFRS 9 *Financial instruments* – as adopted by EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 *Revenue from contracts with customers* and amendments to IFRS 15 *Effective Date of IFRS 15* – as adopted by EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

In the reporting period the Group has not early adopted the above new standards.

IFRS 15 *Revenue from contracts with customers*

The standard introduces new principles for revenue recognition whereby an entity recognizes revenue in such a way as to recognize the transfer of goods or services to the customer in an amount reflecting the amount of consideration that the entity expects to receive in exchange for those goods or services.

The Group believes that the application of the new standard will not have a significant impact on the financial statements.

IFRS 9 *Financial instruments*

The European Commission by Regulation 2016/2067 of 22 November 2016 approved the International Financial Reporting Standard No. 9 *Financial Instruments* (IFRS 9) in the version published by the International Accounting Standards Board on 24 July 2014, which will replace the existing standard IAS 39 *Financial Instruments: recognition and valuation*. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018.

The new standard introduces changes to the classification and valuation principles for financial assets, impairment model for financial instruments based on the concept of "expected loss" and new approach to hedge accounting.

In 2016 the Group launched the implementation project of IFRS 9, which actively involved employees of the Bank's accounting, financial reporting and risk management units, as well as business and IT departments.

At present the Group is at the stage of designing and building the necessary solutions for the individual requirements based on the results of the gap analysis and the defined methodological assumptions. In parallel, the Group designs appropriate architectural solutions for information systems.

The Group is going to gradually complete the project by the end of 2017.

Classification and measurement of financial instruments

In accordance with IFRS 9, the classification of financial assets occurs at the time of initial recognition of an asset in the statement of financial position and depends on:

- business model for managing the financial assets, which is defined at a level that reflects the way in which groups of financial assets are jointly managed to meet a specific business objective, and
- the characteristics of contractual cash flows, i.e. whether the contractual cash flows represent only payments of principal and interest on the principal amount outstanding (the so-called SPPI test – solely payments of principal and interest).

Depending on the Group's business model, financial assets may be classified as:

- held for contractual cash flows (measured at amortized cost if they meet the conditions of the SPPI);

- held for contractual cash flows or for sale (measured at fair value through other comprehensive income if they meet the conditions of the SPPI);
- managed to realize cash flows by selling assets and other (measured at fair value through profit or loss).

Financial assets are reclassified only if and when the Group changes its business model for managing the financial assets. In this case, the Group reclassifies all financial assets affected.

The Group may, at the time of initial recognition, make an irrevocable choice for certain equity investments that would otherwise be measured at fair value through profit or loss in order to account for subsequent changes in fair value through other comprehensive income. Dividends arising from such an investment are recognized in profit or loss.

The application of the new standard will not affect the classification and measurement of financial liabilities, as IFRS 9 largely retains the current requirements of IAS 39.

The Group is in the process of carrying out an analysis of financial assets to meet the conditions of the SPPI test and assign it to the appropriate business model for proper classification of financial instruments in accordance with IFRS 9.

Hedge accounting

At the moment the Group intends to use the option provided by IFRS 9 and continue to apply hedge accounting in accordance with IAS 39. Hence, as far as hedge accounting is concerned, the entry into force of IFRS 9 is unlikely to affect the Group's financial position.

Impairment

In IFRS 9 a new model of impairment has been introduced based on the concept of "expected credit loss" (ECL), which will replace the "incurred loss" model in IAS 39. Due to this change, impairment charges will be calculated based on ECL and taking account of forecasts and expected future economic conditions in the context of credit risk assessment of exposures, which was not possible in IAS 39 models.

The ECL model of impairment will apply to financial assets classified as financial assets measured at amortized cost or at fair value through other comprehensive income, except for equity instruments.

Changing the current concept of incurred loss for expected loss will have far-reaching consequences for modelling of credit risk parameters and the amount of write-offs. In the new concept, the Loss Identification Period parameter will not apply, nor there will be an Incurred But Not Reported category. In accordance with IFRS 9, the impairment write-offs will be determined in the following stages in place of IBNR and non-performing write-offs:

1. Stage 1: 12-month expected credit loss – expected loss associated with the occurrence of impairment within 12 months from the balance sheet date for such exposures, that have not had a significant increase in credit risk since initial recognition and no impairment has been identified.
2. Stage 2: lifetime expected loss – expected loss associated with the occurrence of impairment over the expected life of the financial asset for such exposures that have had a significant increase in credit risk since initial recognition,
3. Stage 3: lifetime expected loss – expected loss associated with the occurrence of impairment over the expected life of the financial asset for such exposures that have had an impairment identified since initial recognition.

The new method of calculating the impairment of financial assets will also have an impact on the recognition of interest income. In particular, the interest income on the assets in stage 1 and 2 will be determined by applying the effective interest rate to the gross value of exposures, while in stage 3 by applying the effective interest rate to the amortized cost of the asset, including impairment losses (as for impaired assets in IAS 39).

The Group assumes that the new impairment model based on ECL concept will have the greatest impact on the amount of write-offs for the exposures categorized in stage 2. This is a new item in IFRS 9, including estimation of lifetime losses without identifying objective evidence of impairment, but only with a significant increase in credit risk since initial recognition. Such an approach will result in a prior recognition of the total loss during the life of the asset and, as a result, an increase in write-offs.

As part of the implementation project of IFRS 9, the Bank is working on the implementation of a new methodology for calculating write-offs and changes in IT systems and processes within the Group, in particular assumptions of the impairment model, obtaining the necessary data, as well as designing the process and tools and carrying out a detailed assessment of impact of IFRS 9 requirements on write-offs level. Methodological work focuses on the exposure classification principles and building new models for lifetime PD, LGD and EAD.

Reconstruction of models is intended in particular to develop criteria for transfer between stages as well as obtaining long-term risk parameters adjusted to the Group's expectations regarding the future macroeconomic situation. In the process of modelling the expected exposure at the time of entry in default for exposures without defined schedules, the Group is working on the application of balance sheet and off balance sheet models based on historical behavioral patterns of repayments and strokes until the exposure defaults. In modelling the transfer between stage 1 and 2, the work includes primarily the development of a model of significant credit risk growth based on a comparison of the probability of the lifetime default since the initial recognition and the probability of the lifetime default as of the assessment date. The model takes into account the basic available characteristics of the exposure since initial recognition and the moment of the current assessment, i.e. scoring/ rating, behavioral data etc.

In the Group's opinion, the implementation of new standards requires the use of more complex credit risk rating models and of higher predictive capabilities that require a much broader range of data than the current models.

Potential impact of IFRS 9 on the Group's financial position and own funds

In the opinion of the Group, the quantitative assessment of the impact of the implementation of IFRS 9 on the Group's financial position, results and own funds is not yet reliable, primarily due to the ongoing development of new credit risk models adapted to the requirements of the new standard. In addition, the updated prudential requirements that will bind the Group are not yet available, and there is no clear interpretation of the new regulations and market practice.

Therefore, the Group has decided to disclose only qualitative information that enables the users of the financial statements to understand the impact of IFRS 9 on the Group's financial position and capital management.

The final impact of the implementation of the new standard will depend on the structure of assets as at the first application of IFRS 9, and the changes in the carrying amount of financial instruments will be recognized at once in retained earnings. In addition, the implementation of IFRS 9 may affect the value of deferred tax assets arising from temporary differences relating to impairment losses. At present, the tax regulations have not been adjusted to the new standard for accounting for write-offs, and the probable direction of these changes is not known yet.

New standards and amendments to existing standards issued by the IASB, but not yet adopted by the EU

IFRSs as adopted by the EU do not differ significantly from the regulations issued by the IASB, with the exception of the following new standards, amendments to standards and a new interpretation, which as at 13 March 2017 have not yet been adopted by the EU (following effective dates refer to the standards in the full version):

- IFRS 14 *Regulatory Deferral Accounts* – effective for annual periods beginning on or after 1 January 2016; The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 16 *Leases* – effective for annual periods beginning on or after 1 January 2019,

- Amendments to IFRS 2 *Share-based payments* – Classification and Measurement of Share-based Payment Transactions; effective for annual periods beginning on or after 1 January 2018,
- Amendments to IFRS 4 *Insurance Contracts* – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*; effective for annual periods beginning on or after 1 January 2018, or when IFRS 9 is applied for the first time,
- Amendments to IFRS 10 *Consolidated financial statements entities* and IAS 28 *Investments in associates and joint ventures* – Sale or contribution of assets between an investor and its associate or joint venture including later amendments; effective date has been postponed until the end of research on the equity method,
- Amendments to IFRS 15 *Revenue from contracts with customers* – Clarifications to IFRS 15; effective for annual periods beginning on or after 1 January 2018,
- Amendments to IAS 7 *Statement of cash flows* – Disclosure initiative; effective for annual periods beginning on or after 1 January 2017,
- Amendments to IAS 12 *Income taxes* – Recognition of deferred tax assets for unrealised losses; effective for annual periods beginning on or after 1 January 2017,
- Amendments to IAS 40 *Investment Property* – Transfers of Investment Property; effective for annual periods beginning on or after 1 January 2018,
- Amendments to various standards *Annual Improvements to IFRSs (2014–2016 Cycle)* – amendments made as part of the process of making annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) aimed mainly at eliminating any inconsistencies and clarification of wording; amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, and amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018,
- Interpretation IFRIC 22 *Foreign Currency Transactions and Advance Consideration*; effective for annual periods beginning on or after 1 January 2018.

The Group estimates that the above new standards, amendments to existing standards and the new interpretation, except for IFRS 16 would not have a material impact on the consolidated financial statements if they were applied by the Group at the balance sheet date.

IFRS 16 introduces new principles for the accounting for leases. The main change is elimination of the classification of leases as either operating lease or finance lease, and instead provides a single lease accounting model, what will have an impact on the recognition of lease in statement of financial position and income statement. The adoption of IFRS 16 will have impact mainly on recognition, presentation and measurement of present operating lease contracts (disclosure of assets - rights to assets under operating lease and corresponding liabilities).

At the same time, hedge accounting for financial assets and liabilities remain besides the regulations adopted by the EU, because its principles have not been approved for use in the EU. The Group estimates that the use of hedge accounting for the portfolio of financial assets or liabilities in accordance with IAS 39 *Financial instruments: recognition and measurement* would not have a material impact on the financial statements, if applied as at the balance sheet date.

5.6. Consolidation rules

The consolidated financial statements comprise the financial statements of Getin Noble Bank S.A. as a parent company and its subsidiaries. The financial statements of the Bank and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary.

The parent company prepares consolidated financial statements using uniform accounting principles (policies) for like transactions and other events in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Subsidiaries

The Bank, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, the Bank controls an investee if and only if it has all the following:

a) power over the investee,
b) exposure, or rights, to variable returns from its involvement with the investee, and
c) the ability to use its power over the investee to affect the amount of the investor's returns.

Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.

Consolidated financial statements:

a) combine like items of assets, liabilities, equity, income, expenses and cash flows of the Bank with those of its subsidiaries,
b) offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary,
c) eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, are eliminated in full). IAS 12 applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.

The Bank shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The Bank shall present non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions. When the proportion of the equity held by non-controlling interests changes, the Bank shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The Bank shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

If the Bank loses control of a subsidiary, it shall:

a) derecognise the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost,
b) derecognise the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them),
c) recognise the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control,
d) recognise if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution,

e) reclassify to profit or loss, or transfer directly to retained earnings the amounts recognised in other comprehensive income in relation to the subsidiary,
f) recognise any investment retained in the former subsidiary at its fair value at the date when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs,
g) recognise any resulting difference as a gain or loss in profit or loss attributable to the parent.

Investments in associates and joint ventures

Associates are those entities over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Where the Bank holds 20% or more of the voting power (directly or through subsidiaries) on an investee, it will be presumed the Bank has significant influence unless it can be clearly demonstrated that this is not the case. If the holding is less than 20%, the entity will be presumed not to have significant influence unless such influence can be clearly demonstrated. The Bank loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint control is the contractually agreed sharing of control of an agreement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

With respect to the accounting for investments in associates and joint ventures the Group applies the equity method, under which, on initial recognition the investment is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss, and the investor’s other comprehensive income includes the investor’s share of the investee's other comprehensive income. If an investor's share of losses of an associate or joint venture equals or exceeds its interest in the associate or joint venture, the investor discontinues recognising its share of further losses.

Profits and losses resulting from upstream and downstream transactions between the Bank and its subsidiaries and an associate or a joint venture are recognised in the Group’s consolidated statements only to the extent of the unrelated investors’ interest in the associate or the joint venture. The Bank's interest in the associate’s or the joint venture’s profit or loss from those transactions is eliminated.

At the end of each reporting period, the Group assesses the existence of circumstances which indicate the impairment of net investment in the associate or the joint venture. If such evidence exists, the Group estimates the recoverable amount, i.e. the value in use of the investment or fair value less costs to sell of an asset, depending on which one is higher. And if the asset carrying amount exceeds its recoverable amount, the Group recognises impairment losses in the income statement.

5.7. Foreign currency translation

Transactions expressed in foreign currencies are converted to PLN at the exchange rate applicable as at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are converted to PLN at average exchange rate of the National Bank of Poland applicable as at the reporting date. The resulting exchange rate differences are recognized under financial income (expense) or, in the cases provided for in the accounting policies, capitalized at the value of assets. Non-monetary assets and liabilities denominated in foreign currencies and recorded at their historical cost are converted to PLN at the exchange rate applicable at the date of the transaction. The non-monetary assets and liabilities measured at fair value are converted at the average exchange rate applicable as at the date of the measurement at fair value.

5.8. Financial assets and liabilities

The Group classifies financial assets to the following categories:

- held-to-maturity financial assets,
- financial instruments measured at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial assets.

The Management Board decides on the classification of financial assets and liabilities upon their initial recognition based on the characteristics of the instruments and criteria of IAS 39.

Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than:

- those designated upon initial recognition, as at fair value through profit or loss,
- those designated as available for sale,
- those that meet the definition of loans and receivables.

Financial assets or liabilities measured at fair value through profit or loss

A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions:

a) it is classified as held for trading. A financial asset or financial liability is classified as held for trading if:
   - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term,
   - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking,
   - it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

b) upon initial recognition it is designated as at fair value through profit or loss in accordance with IAS 39.

Loans and receivables

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

a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss,
b) those that the entity upon initial recognition designates as available for sale,
c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as any other of the previously listed three categories.

Financial assets held for sale are recognised at fair value increased by the transaction costs directly attributable to the purchase or issuance of the financial asset. Results of changes in fair value of financial assets available for sale (if there is a market price available from the active market or the fair value can be reliably measured in other way) are recognized in the other comprehensive income until the asset is derecognised from the statement of financial position or impaired when the cumulative gain or loss recognized previously in other comprehensive income is than recognised in the income statement. Changes in fair value recognized as other comprehensive income are presented in the statement of comprehensive income.

Financial liabilities

Financial liability is any liability that is:

a) a contractual obligation:
   - to deliver cash or another financial asset to another entity,
   - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity,

b) a contract that will or may be settled in the entity's own equity instruments and is:
   - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments,
   - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this reason, the entity's own equity instruments do not include instruments which are contracts concerning future receipt or issue by the entity of its own equity instruments.

Recognition, derecognition and measurement of financial assets and liabilities

Purchase and sale of financial assets is recognised at the transaction date (and not upon cash receipt or payment), and recorded in the books of account and in the financial statements for the period they relate to.

A financial asset is derecognised from the Group's statement of financial position upon expiry of the contractual rights relating to the financial instruments; usually in case when the instrument is sold or all cash flows assigned to the financial instrument are transferred to an independent third party.

In particular, the Group writes-off loan receivables from the balance sheet in correspondence with impairment write-downs, if such receivables are non-collectible, i.e.:

- the costs of further debt recovery exceed the expected recoveries,
- it is impossible to determine the debtor's property that can be used for execution purposes, and the debtor's address in unknown,
- the claims have become prescribed or written off,
- the ineffectiveness of the execution with regard to the Bank's receivable has been confirmed by a relevant document issued by the competent enforcement proceedings authority, or the Bank obtained a decision on the conclusion of bankruptcy proceedings or on the dismissal or the bankruptcy petition due to the lack of debtor assets.

A financial liability or part of a financial liability is derecognised by the Group from its statement of financial position only when the obligation specified in the contract is settled, cancelled or expired.

The value of assets and liabilities and the financial gain (loss) are determined and disclosed in the accounting books in a reliable and clear manner, presenting the Group's financial and economic standing. Upon initial recognition, the financial asset or liability is measured at fair value plus, in the case of financial assets or liabilities not classified as measured at fair value through financial gain (loss), the transactions costs that can be directly attributed to the acquisition or issue of the financial asset or liability. For the purpose of measurement of a financial asset, after initial recognition it is classified as of the date of acquisition or creation into one of the following categories:

- held-to-maturity investments,
- financial assets measured at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial assets.

After initial recognition, the Group measures financial assets, including derivatives that are assets, at fair value, without deducting the transaction costs that may be incurred upon sale or other method of asset disposal. Exception is made for the following financial assets:

a) loans and receivables measured at amortised costs using the effective interest rate method,
b) investments held to maturity measured at amortized costs using the effective interest rate method,
c) investments in equity instruments not quoted in the active market, whose fair value cannot be reliably measured, as well as related to them derivatives which must be settled by delivering unquoted equity instruments measured at cost.

Available for sale financial assets are measured at fair value. The effects of changes in their fair value are recognised in the other comprehensive income until the asset is derecognised from the statement of financial position or impaired, when the cumulative gain or loss recognised previously in other comprehensive income is than recognised in the income statement. Changes in fair value recognised as other comprehensive income are presented in the statement of comprehensive income. Interest income calculated with the effective interest rate method is recognised in the income statement.

After initial recognition, the Group measures all financial liabilities at amortised cost using the effective interest rate method, except for the following:

a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost,
b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies,
c) financial guarantee – after initial recognition, an issuer of such a contract shall measure it at the higher of:
   - the amount representing the most appropriate estimate of expense necessary to fulfil the current obligation under the financial guarantee, taking into account the probability of its realisation;
   - the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18.

The Group does not offset financial assets against financial liabilities, unless this is required or allowed under a standard or interpretation. Financial assets and financial liabilities are offset and recognised on a net basis only if the Group holds a valid legal right to offset the recognised amounts and intends to settle the amounts net, or to realize a given asset and settle the liability at the same time.

5.9. Derivative financial instruments

A derivative is a financial instrument with all three of the following characteristics:

a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'),
b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types

of contracts that would be expected to have a similar response to changes in market factors,

c) it is settled at a future date.

Derivative financial instruments not subject to hedge accounting are recognized as of the date of the trans action and measured at fair value as of the end of the reporting period. The Group recognizes changes in fair value in result on financial instruments measured at fair value through profit or loss or in foreign exchange result (FX swap, FX forward and CIRS transactions), respectively in correspondence to receivables/liabilities arising from derivative financial instruments.

The result of the final settlement of derivative transactions is recognised in "Result on financial instruments measured at fair value through profit or loss or and net foreign exchange gains".

The notional amounts of derivative transactions are recognized in off-balance sheet items as of the date of the transaction and throughout their duration. Revaluation of off-balance sheet items expressed in foreign currencies takes place at the end of the day, at the average exchange rate of the National Bank of Poland (fixing as of the valuation date).

The fair value of financial instruments quoted in a market is the market price of such instruments. In other cases, the fair value is determined based on a measurement model, inputs to which have been obtained from an active market (particularly in the case of IRS and CIRS instruments using the discounted cash flow method).

5.10. Hedge accounting

The Group has adopted accounting policy for cash flow hedge accounting for hedging interest rate risk in accordance with IAS 39 endorsed by the European Commission Regulation. The "carve out" in accordance with IAS 39 endorsed by the European Commission Regulation enables the Group to establish a group of derivative instruments as a hedging instrument, and cancels certain restrictions resulting from the provisions of IAS 39 in the scope of deposit hedging (with the ability to pay on demand) and adoption of the hedging policy for less than 100% of cash flows. In accordance with IAS 39 endorsed by the European Commission Regulation, hedge accounting can be applied to deposits, and a hedging relationship is ineffective only when a re-measured value of cash flows within the given time interval is lower than the value hedged in the given time interval. In accordance with hedge accounting, hedging instruments are classified as:

- fair value hedge, securing against the fair value change risk for a recognised asset or liability, or
- cash flow hedge, securing against cash flow changes which may be attributed to a specific risk related to a recognised asset, liability or forecasted transaction, or
- hedge of a net investment in a foreign entity.

Hedging of the currency risk for the future liability of increased probability is accounted for as a cash flow hedge.

At the time of designation of the hedging instrument, the Bank formally assigns and documents the hedging relationship as well as the purpose of risk management and the strategy for establishment of the hedging instrument. The documentation comprises identification of the hedging instrument, hedged transaction or item, nature of the risk being hedged as well as the manner of assessing the efficiency of the given hedging instrument in offsetting of the risk by changes of the fair value of the item being hedged or cash flows related to the hedged risk. It is expected that the hedging instrument is to be highly efficient in offsetting changes of the fair value or cash flows resulting from the risk being hedged. Efficiency of the hedge relationship is assessed on a regular basis in order to verify whether it is highly effective in all reporting periods for which it has been designated.

Fair value hedge

A fair value hedge is a hedge against changes in the fair value of a recognised asset or liability or an unrecognised future commitment, or an identified portion of such asset, liability or future commitment, that is attributable to a particular risk and could affect profit or loss.

The Group uses hedge for fair value of deposits portfolio in PLN with fixed interest rate against changes in fair value due to the risk of changes in WIBOR benchmark interest rate. Hedging instrument in this kind of hedge portfolio is all or part of a portfolio of IRS. The Bank designates hedging relationships based on sensitivity analysis of the fair value of the hedged portfolio of deposits and portfolio of hedging instruments on the risk of changes in WIBOR benchmark interest rate. This analysis is based on measures of "BPV" and "duration". The effectiveness of the hedging relationship is measured on a monthly basis.

In the portfolio securities of fair value the interest expense on the hedged part of the portfolio of deposits are adjusted for accrued income and interest expense from hedging IRS transaction for a given reporting period. At the same time the change in fair value of derivative instruments designated as hedging instruments during the period is recognised in the income statement under "Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains" – in the same position as the change in the fair value of the hedged item arising from the hedged kind of risk. Change in fair value of part of deposits portfolio in PLN designated in the period as a hedged item adjusts "Amounts due to customers" in the statement of financial position. Adjustment to the hedged portfolio of deposits is amortised linearly started from the month following the adjustment for the time remaining to maturity of the hedged cash flows. The amount of amortisation adjusts "Interest expense" in the income statement.

Cash flow hedge

The Group hedges the volatility of cash flows for mortgage loans denominated in CHF and EUR using specifically identified float-to-fixed CHF/PLN and EUR/PLN CIRS portfolio and the volatility of cash flows for the deposits in PLN separated from existing CIRS transactions using a specifically identified portfolio of fixed-to-float IRS. During the hedging period the Group analyses the hedge relationship effectiveness. The ineffective portion of hedge is recognised in the income statement as "The result on financial instruments measured at fair value through profit or loss and net foreign exchange gains". The effective portion of changes accumulated in the revaluation reserve is gradually reclassified (amortised) to the income statement in accordance with the schedule prepared by the Group until the maturity of the original portfolio.

The Group discontinues hedge accounting if the hedging instrument expires or is sold, terminated or exercised, if the hedge no longer meets the criteria for hedge accounting, or the Group revokes the designation.

5.11. Impairment of financial assets

At the end of each reporting period, the Group estimates whether there is any objective evidence indicating the impairment of any financial asset. If such evidence is identified, the Group determines the amounts of impairment write-downs. Impairment loss is incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Loans, purchased receivables, other receivables

The value of granted loans, borrowings and receivables, including purchased receivables is periodically assessed whether any indicators of impairment exist and what is the level of impairment allowances in accordance with IAS 39.

If there is objective of evidence impairment of loans and receivables or held-to-maturity investments measured at amortised cost, the amount of the impairment allowance is the difference between the carrying value of the asset and the current value of estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of an asset is decreased using the allowance account. The amount of impairment loss is charged to the income statement. The Group first assesses if there is objective evidence for the impairment of individual financial assets which are considered individually significant and individually or collectively in case of financial assets which are not significant. Where no objective evidence for loan impairment assessed on an individual basis has been identified by the Group, such exposure is included in the portfolio of items of similar character of credit risk and the collective analysis of the impairment is conducted.

Loans, advances and receivables, which are individually significant, are subject to individual periodical evaluation in order to determine whether impairment losses occurred (the Group adopts the threshold for individually significant exposure at the outstanding balance of the principal of PLN 2 million). The impairment of an individual loan, advance or receivable is recognised and, as a consequence, an impairment allowance is made where there is objective evidence for the impairment due to one or more events which shall influence future estimated cash flows from such loans, advances or receivables. Such events include the following:

- lack or delay in repayment of loan interest or principal,
- an exposure is in the quarantine after the cessation of the condition relating to the lack or delay in repayment as described in the preceding bullet point,
- significant financial difficulties of a debtor resulting in a decrease in credit risk rating,
- unknown place of residence and undisclosed property of a debtor,
- request for an immediate repayment of the entire loan due to termination of the loan contract (an exposure was transferred to debt recovery),
- filing a notion for the debtor bankruptcy or commencement of corporate recovery proceedings,
- imposed administration has been established or debtor activities has been suspended (in case of banking entities),
- the Bank requested to initiate enforcement proceedings or learned of the auction date of the property securing the Bank's claims in enforcement proceedings conducted under the request of other creditor,
- the loan/ borrowing has been questioned by the debtor in legal proceedings,
- restructuring of the loan/ borrowing (as described in the section on restructuring of the exposures),
- fraud;
- infection of loan/ borrowing with the impairment of other loan/ borrowing granted to the same debtor within the specified product groups,
- failure to meet the conditions of transition to a quarantine,
- problems of retail counterparty due to job loss or reduced income, not paying debts to other financial institutions or significant deterioration of the results of the scoring assessment,
- death of the client.

If impairment was recognised for the assets which are assessed individually but the estimated cash flows do not indicate the need for recording or maintaining impairment allowance, the Group calculates the allowance for incurred but not reported losses on a collective basis.

An impairment allowance for loans that are subject to individual evaluation is determined as a difference between the carrying amount of the loan and the present value of estimated future cash flows discounted using the initial effective interest rate. In case of loans for which collateral has been established, the present value of estimated future cash flows includes cash flows that can be obtained through execution of the collateral, less costs of execution and costs to sell, if execution is probable. The carrying amount of loan is decreased by the amount of the corresponding impairment allowance.

Homogenous groups of loans that are not significant individually and individually significant items for which the individual evaluation showed no impairment, are subject to collective evaluation for impairment, including incurred but not reported credit losses (IBNR). In order to estimate collective impairment allowances, the Group classifies loans into portfolios with similar credit risk characteristics and assesses if there is objective evidence for impairment. The main impairment indicators are:

- lack or delay in repayment of loan interest or principal,
- an exposure is in the quarantine after the cessation of the condition relating to the lack or delay in repayment as described in the preceding bullet point,
- significant financial difficulties of a debtor resulting in a decrease in credit risk rating,
- unknown place of residence and undisclosed property of a debtor,
- request for an immediate repayment of the entire loan due to termination of the loan contract (an exposure was transferred to debt recovery),
- the loan/ borrowing has been questioned by the debtor in legal proceedings,
- the loan/ borrowing restructuring (as described in the section on restructuring of the exposures),
- fraud;
- infection of loan/ borrowing with the impairment of other loan/ borrowing granted to the same debtor within the specified product groups,
- failure to meet the conditions of transition to a quarantine,
- problems of retail counterparty due to job loss or reduced income, not paying debts to other financial institutions or significant deterioration of the results of the scoring assessment,
- death of the client.

The collective impairment measurement process consists of two elements:

- estimation of collective impairment allowances for exposures which are not considered individually significant and for which impairment has been identified,
- estimation of allowances for incurred but not reported credit losses (IBNR) – the exposures for which no impairment has been identified.

The present value of estimated future cash flows for exposures assessed on a collective basis is estimated based on the expected future cash flows discounted using the effective interest rate for particular portfolio, and historical data relating to overdue, length of period being impaired and repayments for particular portfolio.

The portfolio parameters i.e. PD (probability of default), RR (recovery rates), and CR (cure rate – transfer from impaired status to restructuring), which are required for the calculation of impairment allowances are determined based on the historical data. In addition, to include in the group assessment in the calculation of allowances a scenario of repayment of the exposure in accordance with the agreement, additional PD is determined for exposures for which no impairment indicator has been reported concerning lack of or delay in repayment (probability of default determined depending on the type of reported evidence of impairment). For the purpose of estimating the recovery rates (RR) and cure rate (CR) information on the exposure characteristics as of reporting date of the impairment indicator of non-repayment or delays in repayment are used such as: exposure value, month of exposure duration or LTV level (for mortgage portfolio). All parameters are determined independently for defined product group using statistical methods. Parameter estimation is made on the basis of historical base of exposures on a monthly basis, while the impact of data inappropriate to the current level of the loan portfolio risk is reduced, for example, do not include data older than 12 months in PD estimates and data older than 24 months for CR calculation. For the purpose of RR estimation the Group uses time series of 60 months. In justified cases, manual adjustment is allowed in order to reflect the impact of current circumstances. To reduce discrepancies between estimated and actual values of parameters, the Group regularly reviews the methodology and the assumptions (including the division into homogeneous groups of loans) underlying performance parameters.

In order to estimate an allowance for each identified portfolio, the Group also determines a maximum period of the quarantine for restructured exposures, the probable period of restructuring, the conditions of transfer of exposure from impaired status to restructuring and other.

For the purposes of determining the value of IBNR allowance for defined portfolios the Group performs analysis of the length of the period in which the disclosure of losses occur, i.e. LIP (loss identification period). These analyses are carried out on the basis of the observed effects on the accounts at the Bank and delinquencies and entry into impairment for the customer. The Group also carries out back testing of the LIP level on the basis of direct telephone surveys of customers.

For the purposes of estimating the likelihood of insolvency for exposures with reported impairment indicators other than non-repayment or delay in repayment, the Group adopts a LIPNONPERF of 12 months.

For the purposes of calculating provisions for off-balance sheet exposures, the Group estimates the value of the credit conversion factor (CCF) that allows identification of the outflow of funds made available by the Bank to the customer before the impairment occurs. The Group estimates the CCF for defined homogeneous product groups on historical data.

Held-to-maturity investments

The Group assesses whether there is objective evidence that an individual, held-to-maturity investment is impaired. If there is objective evidence of impairment, the amount of impairment losses is equal to the difference between the carrying value of an asset and the current value of estimated future cash flows (excluding future credit losses not incurred) discounted using the effective interest rate as at the date on which such evidence occurs for that financial asset.

If, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the impairment loss balance. The amount of the reversal is recognised in the profit or loss.

Available-for-sale financial assets

At the end of each reporting period, the Group assesses whether there is any objective evidence that a financial asset and/ or a group of financial assets is impaired.

At the end of each reporting period, the Group performs an analysis of whether there is objective evidence that an individual asset and/ or a portfolio of financial assets have been impaired. Evidence that a financial asset or a group of financial assets is permanently impaired may be due to the existence of one or more indicators, among others, significant financial difficulties of the issuer, non-repayment or delayed repayment of outstanding liabilities, granting facilities for repayment of liabilities to the issuer not otherwise received, other observable data that may indicate an calculable decline of future cash flows arising from the financial asset, that appeared after the date of their initial recognition in the Group's accounting books.

Should there be any objective evidence of impairment of a financial assets available for sale, the amount constituting the difference between the acquisition cost of the assets (decreased by all capital repayments and interest) and its current fair value, less any impairment losses for these assets component previously recognised in profit or loss, is removed from equity and recognised in profit or loss. The reversal of impairment write-downs for equity instruments classified as available for sale shall not be reversed through profit or loss. If, in the next period, the fair value of a debt instrument available for sale increases and the increase can be objectively related to an event subsequent to the recognition of the impairment loss in the financial profit or loss, then the amount of the reversals is recognised in the financial profit or loss.

5.12. Repo/ reverse repo agreements

Repo and reverse-repo and sell-buy-back and buy-sell back agreements are sale or purchase transactions of securities with the agreement to repurchase or resale them at a specific future date and price.

Repo and sell-buy back agreements are recognised in "Amounts due to banks and financial institutions" when occur. Reverse-repo and buy-sell back agreements are recognised in "Amounts due from banks and financial institutions".

(data in PLN thousand)

Repo and reverse repo agreements are measured at amortised cost, and securities which are subject to repo/reverse repo transactions are not derecognised from balance sheet and measured in accordance with principles applicable for particular securities portfolio. The difference between sale and repurchase price is treated as interest income or expense, respectively and is settled over the period of the agreement with an effective interest rate.

5.13. Contingent liabilities

As part of its operations, the Group makes transactions that, at the time of execution, are not recognised in the statement of financial position as assets or liabilities, but which result in contingent liabilities. A contingent liability is:

- possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group;
- present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be reliably measured.

Off-balance sheet liabilities that carry the risk of the counterparty's failure to meet the relevant contractual obligations are provided for in accordance with IAS 37. Financial guarantees are treated and recognised in accordance with IAS 39. Financial assets and financial liabilities are offset and recognised on a net basis only if the Group holds a valid legal right to offset the recognised amounts and intends to settle the amounts net, or to realise a given asset and settle the liability at the same time.

5.14. Property, plant and equipment

Tangible fixed assets are recognised at acquisition or manufacturing cost less depreciation and any impairment losses. The initial value of a tangible fixed asset comprises its acquisition price and all the costs directly attributable to the purchase and preparation of an asset to be put into operation. The initial cost also includes the costs of replacement of parts of plant and equipment when incurred if the criteria for recognition are met. Any costs incurred after the date when the fixed asset is put into operation, such as the costs of maintenance and repairs, are recognised in profit or loss when incurred.

Fixed assets, when acquired, are divided into component parts that are items of significant value and to which a separate period of economic life can be attributed. The costs of general overhauls also constitute a component part. Depreciation is provided on a straight-line basis over the estimated useful life of the respective asset.

Type of assets	Estimated economic useful life
Investment in third party assets	rental duration - up to 10 years
Buildings	from 40 to 66,6 years
Machinery and technical equipment	from 4 to 14 years
Computer units	from 2 to 10 years
Means of transport	from 2,5 to 5 years
Office equipment, furniture	from 2 to 10 years

The residual value, economic useful life and method of depreciation of the assets are verified and, if necessary, adjusted as at the end of each financial year.

An item of tangible fixed asset can be removed from the statement of financial position when the asset is sold or when no economic gains are expected from continuing to use such an asset. All gains or losses resulting from the removal of such an asset from the statement of financial position (calculated as the difference between possible net proceeds from the sale of the asset and the carrying amount of the asset) are recognised in the financial profit or loss for the period in which the asset was removed.

Investments in progress apply to fixed assets under construction or assembly and are recognised at the acquisition or manufacturing cost. Fixed assets under construction are not depreciated until their construction is completed and the assets are put into operation. When an asset is overhauled, the overhaul cost is recognised in tangible fixed assets in the statement of financial position provided that the criteria for such recognition are met.

5.15. Investment properties

Investment property is real estate (land, buildings or parts of them or both items) which the Group treats as a source of income from rent or holds due to the related increase in value, or both, and such real estate is not used during performance of services or other administrative activities, or intended for sale as part of the entity's ordinary business.

Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the property will flow to the Group, and the cost of the property can be reliably measured.

An investment property is measured initially at its cost. Transaction costs are included in the initial measurement. After initial recognition property is remeasured at fair value, and gains or losses arising from changes in the fair value of investment property are recognised in net profit or loss for the period in which it arises. Fair value of investment properties is recognised in accordance with IFRS 13.

Investment property is derecognised upon disposal or permanent withdrawal from use, if no future economic benefits from its disposal are expected. All profit or loss arising from the derecognition of an investment property are recognised in the income statement in the period of derecognition.

Transfer of assets to investment property is made only when there is a change in use evidenced by end of owner-occupation or commencement of an operating lease agreement. If a property occupied by the Group becomes an investment property, the Group applies rules as for property, plant and equipment up to the date of change in use of property.

5.16. Intangible assets

An intangible asset acquired in a separate transaction is initially measured at acquisition or production cost. The cost of acquisition of an intangible asset in a business combination is equal to its fair value as of the date of the business combination. An initially recognized intangible asset with a definite useful life is recognised at the cost of acquisition or production less amortization and impairment write-downs. Except development work, expenditure on internally generated intangible assets, except for capitalised expenditure on development, is not capitalised and is recognised in the costs of the period in which it was incurred.

The Group assesses whether the useful life of an intangible asset is definite or indefinite. An intangible asset with a definite useful life is amortised throughout its useful life and subject to impairment tests every time that evidence is identified that the asset is impaired. Estimated useful life of software is 2 to 10 years. The core deposit intangible is subject to straight-line amortisation over a period within which according to the assumptions the majority of benefits from the intangible assets is expected to be realised. The period and method of amortisation of intangible assets with a definite useful life are verified at least as of the end of each financial year. Changes in the expected useful life or in the expected method of consuming the economic benefits from an intangible asset are recognised through a change of, respectively, the period or method of amortisation, and treated as changes of estimates. The amortisation charges for intangible assets with a definite useful life are recognised in profit and loss, in the respective category for the function of that intangible asset.

Intangible assets with an indefinite useful life and those which are not used are, on an annual basis, subject to impairment tests with respect to individual assets or at the level of a cash-generating unit. In case of other intangibles, the Group assesses annually whether there impairment triggers have been recognised. The economic useful life periods are also subject to verification on an annual basis and, if necessary, adjusted with effect from the beginning of the financial year.

Gains or losses arising from the derecognition of an intangible assets in the statement of financial position are measured by the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Core Deposit Intangible

According to IFRS 3, acquired identifiable intangible assets must be recognised separately from goodwill, regardless of whether acquiree had recognised the asset prior to the acquisition transaction occurring or no. As a result of the acquisition by Getin Noble Bank S.A. of the organised part of business the intangible assets fulfilling the criteria for separate recognition in statement of financial position of the Bank were identified – relationships with deposit customers ("Core Deposit Intangible"). From the Bank perspective, it reflects the benefit of cheaper source of finance as the difference between the cost of finance from external sources (i.e. interbank market) and interest cost of acquired current accounts and inflow of non-interest income less respective expenses. Fair value measurement is to determine the present value of future benefits, constituting the difference between the cost of finance from external sources (i.e. interbank market) and interest cost of current accounts estimated for anticipated period of deposit customers retention based on historical customers' behaviour and churn rate.

The core deposit intangible is subject to straight-line amortisation over a period within which according to the assumptions the majority of benefits from the intangible assets is expected to be realised.

Goodwill

Goodwill arising on the business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recording, goodwill is recognised at cost less any accumulated impairment write-downs. Goodwill is tested for impairment annually if there is an indication that the goodwill may be impaired. Goodwill is not amortised. The impairment loss is determined by estimating the recoverable value of the cash-generating unit to which the goodwill was allocated. If the recoverable value of the cash-generating unit is lower than its carrying amount plus goodwill, the impairment loss is recognised.

5.17. Business combination of entities not under common control

Business combination units that are not jointly-controlled concern the combination of separate entities into the single reporting entity. Business combination of units results in the acquisition of control by a parent company over the entities taken over. Business combinations that are not under common control are settled under the acquisition method. The acquisition method captures business combination on the perspective of the entity identified as the acquiring entity. The acquiring entity recognises the acquired assets, liabilities and accepted contingent liabilities including those which were not previously recognised by the acquired entity.

The application of the acquisition method consists in the following:

- identification of the acquiring entity,
- identification of the cost of combination,

- allocation of the cost of the combination on the acquisition date to the acquired assets and accepted liabilities and contingent liabilities.

The acquiring entity determines the cost of combination in the amount equal to the sum of the fair values on the date of exchange of the acquired assets, liabilities taken or assumed, and equity instruments issued by the acquiring entity in return for the control over the acquired entity.

5.18. Assets held for sale and discontinued operations

Assets held for sale include tangible fixed assets, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are recognised at the lower of its carrying amount and fair value less costs to sell. Assets classified as held for sale are not subject to depreciation.

If the criteria for assets held for sale are no longer met, the Group ceases its recognition as assets held for sale and reclassifies to the proper category of assets. In this case, the asset is measured at the lower of:

- its carrying amount before the asset was classified as held for sale, adjusted for any depreciation or revaluations that would have been recognised had the asset not been classified as held for sale,
- its recoverable amount at the date of the subsequent decision not to sell.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The reclassification to the discontinued operations is made when the operation is disposed or when the operation meets the criteria of discontinued operation.

5.19. Impairment of non-financial tangible fixed assets

The carrying amount of particular assets is tested for impairment periodically. If the Group has identified evidence of impairment, determines whether the current carrying amount of the asset is higher than the amount recoverable through further use or sale, i.e. the recoverable amount of the asset is estimated. If the recoverable amount is lower than the current carrying amount, the asset is impaired and the impairment loss is charged in the profit or loss.

The recoverable amount of an asset is determined as the higher of two amounts: the amount expected to be received from sale less the selling costs and the asset's value in use. An asset's value in use is determined as the future cash flows expected to be derived from the asset, discounted with the current market rate of interest plus a margin against a risk specific to the given class of assets.

The impairment loss of an asset may be reversed only up to the carrying amount of the asset less the accumulated depreciation which would have been determined if the asset had not been impaired.

5.20. Cash and cash equivalents

The Group recognises the following cash and cash equivalents: cash and balances on current accounts in the Central Bank and balances on current accounts and overnight deposits in other banks.

5.21. Accrued expense and deferred income

Accrued expenses (assets) are particular expenses which will be recognised in the profit or loss in future reporting periods. Accrued expenses (assets) are recognised under "Other assets".

Accrued expenses (liabilities) are provisions for the goods and services provided to the Group which are to be paid for in the future reporting periods. These are recognised under "Other liabilities". Deferred income includes, i.a. the amounts received during a reporting period for goods and services to be supplied in the future and certain types of income received in advance which will be recognized in the financial profit or loss in the future reporting periods. They are also recognised under "Other liabilities".

5.22. Employee benefits

In accordance with the Polish Labour Code and the Remuneration Policies, the Group's employees are entitled to disability/ retirement severance pay. Such severance pay is paid as a lump sum to an employee upon termination of his or her employment for retirement or disability and the severance pay amount depends on the number of the employee's years of service and his or her individual pay level. The Group creates a provision for severance pay to assign the future costs to the periods to which they relate. In accordance with IAS 19, disability/retirement severance pay is provided under termination benefit plans. The current amount of such liabilities as at each reporting date is determined by an independent actuary. The liabilities are equal to discounted payments to be made in the future, taking into account the employee turnover rate, and they relate to the reporting period. Demographic and employee turnover figures are based on historical data.

5.23. Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Group creates provisions included in liabilities in line "Provisions" for:

a) retirement severance pay

   The Group creates provisions for retirement severance pay. The amount of provisions is determined according to valuation made by an independent actuary and updated at the end of each reporting period. The provision is expensed to profit or loss except for actuarial gains and losses that are recognised in the revaluation reserve.

b) unused holidays leave

   The Group creates a provision in the full amount related to unused leave of the Group's employees at the end of the reporting period on the basis of the unused holidays leave balance.

c) other

   The Group creates provisions for legal obligations or highly probable obligations whose amount can be reliably estimated. Such obligations may result, for instance, from contracts concluded, such as employment agreements, as well as in relation to pending lawsuits.

5.24. Leases

The Group as a lessee

Finance lease agreements which transfer substantially all the risks and rewards incident to ownership of the leased asset on the Group are recognised in the statement of financial position as at the date of commencement of the lease term at the lower of two values: the fair value of the asset and the present value of the minimum lease payments. Finance lease payments are apportioned between the operating expenses and the reduction of the outstanding liability so as to produce a constant interest rate on the remaining balance of the liability. Other operating expenses are recognised directly in the financial profit or loss. Tangible fixed assets used under finance leases are depreciated over the shorter of the following two periods: the lease term or the estimated life of the asset.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset leased are classified as operating leases. Operating lease payments are recognised under expense in the financial profit or loss on a straight-line basis over the term of the relevant lease.

The Group as a lessor

The Group presents assets under operating leases in the relevant fixed asset group, according to the nature of the respective asset. Fixed asset under operating lease agreements are depreciated on a straight-line basis over the lease agreement period, taking into account residual value. The residual value is determined at the amount the Group could currently expect to obtain, taking into account the age and condition of the asset at the end of the lease agreement, less the estimated costs of disposal.

Operating lease income is recognised as income on a straight-line basis over the agreement period, unless another systematic basis is more representative of the time pattern of the user's benefit.

5.25. Other receivables

Other receivables are recognised at the amount of the payment due, less impairment write-downs. In case the effect of the time value of money is material, the receivable amount is determined by discounting expected future cash flows to the current value using a discount rate that reflects current market assessments of the time value of money. If the discounting method has been applied, increase of the receivable amount over time is recognised in the income statement.

5.26. Other liabilities

Other liabilities are recognised at the amount of the payment due. In case the effect of the time value of money is material, the payable amount is determined by discounting expected future cash flows to the current value using a discount rate that reflects current market assessments of the time value of money. If the discounting method has been applied, increase of the payable amount in time is recognised in the income statement.

5.27. Equity

Equity consists of reserves and funds created in accordance with the applicable laws, regulations and the articles of association. The equity consists of share capital, repurchased own shares, retained earnings (undistributed profit or loss from prior years) and other capital.

Share capital

Share capital is recognized at nominal value according to the articles of association and the court register.

Purchased own shares

If an entity acquires own equity instruments, the amount paid for the instruments including all the direct costs related to such acquisition is recognised as a change in equity. The acquired own shares are recognised at the purchase price until the shares are cancelled or disposed.

Retained earnings (undistributed profit or loss from prior years)

Retained earnings include appropriated profits for the current and previous periods, which have not been allocated on the other capital or distributed to the shareholders.

Dividends for the year that have been approved by the General Shareholders' Meeting but have not been paid as at the reporting date are disclosed under "Other liabilities" in the statement of financial position.

Other capital

a) Reserve capital
The capital from the sale of shares above par value (share premium) less the direct costs associated with it and created from profit. Reserve capital includes the capital resulting from the settlement of a business combination.

b) Revaluation reserve
Revaluation reserve from measurement of available-for-sale financial assets, revaluation of cash flow hedges, valuation of stock option benefits, actuarial gains and losses and deferred tax relating to temporary differences recognised in the revaluation reserve.

c) Other capital reserves
Other capital reserves are created from the appropriations from profit and other sources and are used for covering special losses and expenses. The General Risk Fund is also included in this position.

All items of the equity described above, in case of acquisition/ combination of entities, apply to the events taking place after obtaining control over the given entity until the day such control is ceased.

5.28. Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using selected pricing model. While measuring equity-settled transactions, no account is taken of any performance conditions other than the conditions linked to the price of the parent company's shares ("market conditions").

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled until the date in which particular employees become entitled to awards ("vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the parent company's Management Board, at that date, based on the best available estimate of the number of equity instruments, will eventually be vested. No expense is recognised for awards that are not eventually vested, except for the awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. Furthermore, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had been vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution on determination of the earnings per share.

Cash-settled transactions

Cash-settled transactions are initially measured at fair value at the granting date using the relevant model and entailing the terms and conditions upon which the options were granted. This fair value is expensed over the whole period until the vesting with recognition of a corresponding liability. The liability is re-measured at the end of each reporting period up to and including the settlement date with the changes in the fair value being recognised through profit or loss.

5.29. Revenues

Revenue is recognised in the amount in which it is probable that economic benefits associated with the transaction will flow to the Group and if the amount of income can be measured reliably. By revenue recognition apply the criteria described below.

Net interest income

Interest income and expense include all interest income and expense on financial instruments valued at amortised cost with effective interest rate and available-for-sale assets. Interest income also includes incremental costs relating to originated loans and advances, including integral and direct internal costs.

The following financial assets and liabilities the Group measures with amortised cost method:

- loans and advances granted and other receivables - not held for trading,
- financial assets held to maturity,
- financial liabilities not designated, upon initial recognition, as financial liabilities measured at fair value through profit or loss and not being derivative instruments.

The effective interest rate is the rate that discounts the expected cash flows until maturity or the next market-based repricing date to the current net carrying amount of the financial asset or financial liability. That calculation should include all fees paid or received by the Group under the contract for the asset or liability, excluding the potential future credit losses.

The measurement method for interest coupons, fees and commission and some other external expenses associated with financial instruments (the effective interest method or the straight-line method) depends on the nature of the given instrument. Financial instruments with defined cash flow schedules are measured using the effective interest rate method. In case of financial instruments without defined cash flow schedules, it is impossible to calculate the effective interest rate and therefore the fees and commission are recognised over time using the straight-line method.

The recognition method for various types of fee/ commission through profit or loss as interest or fee and commission income and, generally, whether it should be settled over time and not recognised through profit or loss as incurred, depends on the economic nature of the given fee/ commission. Deferred fees and commission income includes, for example, loan approval fees, loan origination fees, fees for loan disbursement, etc. The commission item is also remuneration for insurance when there is a direct connection between credit product and insurance product. Such fees are an integral part of the return generated by the given financial instrument. This category also comprises fees and charges for changing the terms and conditions of contracts, which modifies the originally calculated effective interest rate.

If it is probable that a loan agreement is executed, the fees and charges for the Group’s obligation to execute the agreement are considered as remuneration for continuing involvement in the purchase of the financial instrument, deferred and recognised as an adjustment of the effective rate of return at the time of execution of the agreement (using the effective interest rate method or the straight-line method, depending on the nature of the product). In case of an asset for which impairment has been identified, the interest income is recognised in profit or loss based on net exposure determined as the difference between gross exposure and impairment allowance, and using the effective interest rate that was applied in the determination of the impairment allowance.

Net interest income also comprises the profit or loss on the interest charged and paid in relation to the derivative CIRS and IRS instruments, as well as SWAP points.

Net fee and commission income

Fees and commissions recognised in the financial profit or loss using the effective interest rate method are recognised in net interest income. Fees and commissions that are recognised over time using the straight-line method or upfront, are recognised in "Net fee and commission income". The fee and commission income include fee and commission income arising from services comprising execution of significant services. This category includes fees and commissions for transaction services where the Group acts as an agent or provides services such as distribution of investment fund units, investment and structured products, income and expense on commission and fees not being an integral part of loan receivables measured using effective interest rate method.

The Group applies the following principles for recognition of commission income relating to offering of insurance products to the Bank's customers:

The Bank offering insurance products to its customers, recognises revenue from insurance services based on professional judgement whether the sale of the insurance is limited to the provision of insurance products or the sale of insurance is linked to the sale of financial instrument. The principles for assessment of the economic content of offered financial instruments and insurance products, which are sold by the Bank, are presented in Note 6.1 of these financial statements.

As a result of the assessment of a direct link between an insurance product and a financial instrument, the Group may conclude:

- the existence of direct combination which results in the recognition of remuneration for offering insurance products under the amortised cost method using the effective interest rate method in interest income,
- no direct combination which results in the recognition of remuneration for offering insurance products in commission income in accordance with IAS 18,
- the existence of the combined product of financial instrument and insurance product, resulting in the allotment of remuneration for offering insurance product allocating the fair value of financial instrument and the fair value of an insurance product sold in conjunction with this instrument.

If combined product is identified, the remuneration for the sale of insurance product is allotted and recognised as a part of amortised cost of a financial instrument and as commission income related to agency services. Allotment is made according to the ratio of the fair value of the financial instrument and the fair value of agency services in relation to the sum of these two values. Fair value measurement of the agency services and the financial instrument is based on market data. In the case of provision of after-sales services resulting from the offered insurance product, the corresponding part of the remuneration allocated to the agency service is settled during the term of the insurance contract according to the method of completion, taking into account the principle of matching revenues and expenses. This remuneration is recognised in fee and commission income.

The Group estimates the share of commission that will be returned (e.g. due to the termination of the insurance contract by the customer, prepayments or other) in the periods after the sale of an insurance product. The estimated part of commission is deferred up to the value of expected returns. For the part relating to revenues accounted for at amortised cost, the projected returns are included in the remuneration recognised at amortised cost of a financial instrument. In a situation, when the remuneration is divided for a combined product, the projected returns for the part accounted for using the effective interest rate and recognised as remuneration for agency service of insurance sale are assigned to those items in the same way as the remuneration has been split.

The Group estimates the costs related to the sale of insurance product in accordance with the method of accounting for income and expenses depending on the form of sales of insurance product.

The Group classifies costs associated with the sale of insurance product to directly related and other indirectly related costs, including fixed costs (recognised as incurred).

Costs directly related to the sale of insurance product are accounted for in accordance with the principle of matching revenues and expenses as follows:

- element of amortised cost of a financial instrument if all revenues related to the sale of the insurance product is accounted for using the effective interest rate, or
- respectively in the ratio applied when the revenue is recognised as part of the calculation of amortised cost and revenue recognised at once or deferred as remuneration for the service agency if there was a split of the remuneration made for a combined product.

Revenues from intermediary services of financial products

The Group recognises revenues and the allocated to them costs associated with the intermediary services of financial products based on invoices issued and estimates made. The amount of the revenue is determined as the fair value of the payment received or due. In accordance with IAS 18, the revenue from the intermediary in sale of a given financial product is recognized in statement of comprehensive income when the following conditions have been met:

- the entity has transferred to the buyer significant risks and rewards of ownership of the product (through the customer's submission of application form for loan/investment/insurance product required by the relevant bank/financial institution),
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the products sold,
- the amount of revenue can be measured reliably.

Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains

Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains comprises profits and losses from fair value measurement of held-for-trading financial assets and liabilities, financial assets and liabilities initially recognised as financial instruments measured at fair value through profit or loss and derivatives, as well as gains and losses arising from the purchase/disposal of foreign currencies and from the translation of assets and liabilities denominated in foreign currencies at the average NBP exchange rate for a given currency prevailing the balance sheet date.

Result on other financial instruments

Result on other financial instruments comprises of realised gains and losses from disposal of financial assets classified as available-for-sale and held-to-maturity.

5.30. Other operating income and expense

Other operating income and expense comprises income and expenses not related directly to the banking activities of the Group. These include, in particular, the result from sale and disposal of fixed assets, net gains/losses from fair value adjustments of investment properties, rental income and costs, income from sale of other services, penalties and fines received and paid, as well as expense relating to the debt collection activities, court fees and costs of promotions and rewards for customers. Moreover, in other operating income the Group recognises also a gain on bargain purchase from the business combinations in accordance with IFRS 3.

5.31. Dividends

Dividend income is recognised in the profit or loss when the right of shareholders to dividend is established, provided the dividend is paid from profits made after the acquisition date.

5.32. Taxes

Current tax

Liabilities and receivables due to the current tax for the current and previous periods are measured as the expected amount to be paid to (or received from) tax authorities assuming the tax rates and tax regulations effective as at the reporting date.

Deferred tax

For the purposes of financial reporting, deferred tax is provided calculated, using the liability method, on temporary differences arising as at the end of the reporting period between the tax value of assets and liabilities and their book value presented in the financial statements.

Deferred tax liabilities are recognised with respect to all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in case of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be achieved against which the above differences, assets and losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in case of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be achieved against which the temporary differences can be utilised.

The carrying amount of a deferred tax asset is verified at the end of each reporting period and is subject to a respective decrease by the amount which corresponds to the lower probability of generating taxable income sufficient for partial or full realisation of the deferred tax asset. A deferred tax asset that was not recognised is re-assessed as at the end of each reporting period and is recognised to the amount which corresponds to the probability of generating taxable income in the future in order to utilise that asset.

Deferred income tax assets and provision for deferred income tax are determined using tax rates that are expected to be applied when a deferred tax asset is realised or the provision is released, based on the tax rates (and regulations) that have been effective or is expected to be effective at the end of the reporting period.

Income tax concerning items recognised directly in other comprehensive income or in equity is recognised directly in other comprehensive income or in equity, respectively.

The Group offsets deferred income tax assets against the deferred tax liability only if it holds a valid and enforceable legal right to offset current income tax receivables against tax liabilities and if the deferred tax is related to the same taxpayer and the same tax authority.

6. Significant values based on professional judgement and estimates

6.1. Professional judgement

In process of applying accounting principles (policies) to the following issues the most important was management's professional judgment apart from accounting estimates.

Commissions for insurance

The Group applies the following principles for revenue recognition from commissions received for offering the Bank's customers insurance products:

The Bank offering insurance products to its customers, recognises revenue from insurance services based on professional judgement whether the sale of the insurance is limited to the provision of insurance products or the sale of insurance is linked to the sale of financial instrument. The assessment is based on the economic content of an offered financial instruments and insurance products sold by the Bank. The aim of the assessment is to distinguish based on the economic content the revenue which account for:

- an integral part of the remuneration for offering extra financial instrument,
- the remuneration for providing agency services,
- the remuneration for providing additional services after the sale of product.

Direct link between an insurance product and a financial instrument occurs in particular, when at least one of two conditions is met:

- financial instrument is offered by the Bank always with the insurance product, i.e. both transactions were concluded at the same time or have been included in the sequence in which each new transaction follows from the previous one,
- insurance product is offered by the Bank only with a financial instrument, i.e. it is not possible to buy at the Bank an insurance product identical to the legal form, conditions and economic content without the combined purchase of a financial instrument.

The Bank also analyses the economic content of the insurance product, including the fulfilment of the criteria of independence of the insurance contracts from offered financial instruments, by setting:

- degree of combined product sale, i.e. the percentage share of financial instruments with insurance protection to a number of agreements on financial instruments in the Bank's portfolio, broken down by financial instruments and insurance products or insurance groups in accordance with the Bank's product offer,
- average annual real interest rate of individual financial instruments in the Bank's portfolio, broken down by including insurance protection and without insurance protection, by financial instruments and insurance products or insurance groups in accordance with the Bank's product offer,
- possibility of joining the insurance protection without having a financial instrument,
- lack of the requirement of the Bank to conclude the insurance contract by the client for the purchased financial instrument, number of insurance contracts similar in terms of terms and conditions, concluded in other insurance company than the insurance company, whose products are offered by the Bank together with a financial instrument (the percentage share in the whole loan portfolio – broken down into financial instruments in accordance with the

Bank's product offer),

- level of resignation and the reimbursed remuneration, broken down by financial instruments and insurance products or insurance groups, according to the Bank's product offer,
- number of insurance contracts continued after the early repayment of a loan, together with information on loan products with which they were associated,
- scope of activities performed by the Bank to the insurance company during the term of the insurance contract,
- effects of analysis of management reports on the results of individual business lines, financial instruments in accordance with the product offer of the Bank, banking services.

As a result of the assessment of a direct link between an insurance product and a financial instrument, the Group may conclude:

- the existence of direct combination which results in the recognition of remuneration for offering insurance products under the amortised cost method using the effective interest rate method in interest income,
- no direct combination which results in the recognition of remuneration for offering insurance products in commission income in accordance with IAS 18,
- the existence of the combined product of financial instrument and insurance product, resulting in the allotment of remuneration for offering insurance product allocating the fair value of financial instrument and the fair value of an insurance product sold in conjunction with this instrument.

If combined product is identified, the remuneration for the sale of insurance product is allotted and recognised as a part of amortised cost of a financial instrument and as commission income related to agency services. Allotment is made according to the ratio of the fair value of the financial instrument and the fair value of agency services in relation to the sum of these two values. Fair value measurement of the agency services and the financial instrument is based on market data. In the case of provision of after-sales services resulting from the offered insurance product, the corresponding part of the remuneration allocated to the agency service is settled during the term of the insurance contract according to the method of completion, taking into account the principle of matching revenues and expenses.

The Bank estimates the share of commission that will be returned (e.g. due to the termination of the insurance contract by the customer, prepayments or other) in the periods after the sale of an insurance product. The estimated part of commission is deferred up to the value of expected returns.

The Bank estimates the costs related to the sale of insurance product in accordance with the method of accounting for income and expenses depending on the form of sales of insurance products.

The Group classifies costs associated with the sale of insurance product to directly related and other indirectly related costs, including fixed costs (recognised as incurred). Costs directly related to the sale of insurance product are accounted for in accordance with the principle of matching revenues and expenses.

Classification of lease contracts

The Group classifies leases as either financial or operating, based on the assessment of the extent to which the risk and rewards are transferred to the lessor and the lessee. Such an assessment is based on the economic substance of each transaction.

Portfolio parameters in the valuation of loan exposures

The portfolio parameters i.e. PD (probability of default), RR (recovery rates), and CR (cure rate – transfer from impaired status to restructuring), which are required for the calculation of impairment allowances are determined based on the historical data. In addition, to include in the group assessment in the calculation of allowances a scenario of repayment of the exposure in accordance with the agreement, additional PD is determined for exposures for which no impairment indicator has been reported concerning lack of or delay in repayment (probability of default determined depending on the type of reported evidence of impairment). For the purpose of estimating the recovery rates (RR) and cure rate (CR) information on the exposure characteristics as of reporting date of the impairment indicator of non-repayment or delays in repayment are used such as: exposure value, month of exposure duration or LTV level (for mortgage portfolio). All parameters are determined independently for defined product group using statistical methods. Parameter estimation is made on the basis of historical base of exposures on a monthly basis, while the impact of data inappropriate to the current level of the loan portfolio risk is reduced, for example, do not include data older than 12 months in PD estimates and data older than 24 months for CR calculation. For the purpose of RR estimation the Group uses time series of 60 months. In justified cases, manual adjustment is allowed in order to reflect the impact of current circumstances. To reduce discrepancies between estimated and actual values of parameters, the Group regularly reviews the methodology and the assumptions (including the division into homogeneous groups of loans) underlying performance parameters.

In order to estimate an allowance for each identified portfolio, the Group also determines a maximum period of the quarantine for restructured exposures, the probable period of restructuring, the conditions of transfer of exposure from impaired status to restructuring and other.

For the purposes of determining the value of IBNR allowance for defined portfolios the Group performs analysis of the length of the period in which the disclosure of losses occur, i.e. LIP (loss identification period). These analyses are carried out on the basis of the observed effects on the accounts at the Bank and delinquencies and entry into impairment for the customer. The Group also carries out back testing of the LIP level on the basis of direct telephone surveys of customers.

For the purposes of estimating the likelihood of insolvency for exposures with reported impairment indicators other than non-repayment or delay in repayment, the Group adopts a LIPNONPERF of 12 months.

Consolidation of the Special Purpose Entity

In connection with the transaction of securitisation of the receivables resulting from acquired by Getin Noble Bank S.A. lease contract portfolios carried out in November 2015, the Bank performed an analysis of the risks, benefits and the business sense of the special purpose entity, GNB Leasing Plan Ltd. (SPV) under the provisions of IFRS 10. On the basis of the conclusions, it was stated that the substance of the relationship between the SPV and the Bank indicates that the SPV is controlled by the Bank. Therefore, the SPV has been consolidated using the full method, despite the fact that the Group does not hold any equity interest in the entity.

6.2. Uncertainty of estimates

While preparing financial statements in accordance with IFRS, the Group is required to make estimates and assumptions that affect the amounts reported in the financial statements. These assumptions and estimates are reviewed on an ongoing basis by the Group's management and based on historical experience and various other factors, including such expectations as to the future events which seem justified in a particular situation. Although these estimates are based on the best knowledge of the current conditions and of the activities undertaken by the Group, the actual results may be different from these estimates. Estimates made as at the end of the given reporting period reflect the conditions as at the given date (e.g. currency exchange rates, interest rates, market prices). The main areas for which estimates were made by the Group include:

Impairment of loans and advances

At the end of each reporting period, the Group assesses whether there is any objective evidence that a financial asset or a group of assets is impaired. The Group assesses whether there is any evidence indicating a reliably measurable decrease in estimated future cash flows relating to the loan portfolio, before such a decrease can be allocated to a particular loan in order to estimate the level of impairment. The estimates may include observable data indicating an unfavourable change in the debt repayment ability of a particular category of borrowers or in the economic situation in a particular country or part of the country, which is related to problems in this group of financial assets. The methodology and assumptions for estimating amounts of cash flows and the periods in which they occur is subject to review on a regular basis in order to identify the discrepancies between the estimated and actual amounts of losses.

Uncertainty is associated with estimates of impairment in value of portfolio (both in relation to the impaired portfolio and regular portfolio, for which an IBNR allowance is made), which follows from the assumptions and specific of statistical models used.

In 2016 Getin Noble Bank S.A. has changed the methodology taking into account the IRB project in progress. An important component of the new model is the extension of the historical data and the number of attributes used to estimation based on the work conducted under the IRB project. The change mainly concerned default identification (i.a. adjusting materiality threshold of exposures to IRB recommendations for retail exposures) and effective default recovery (taking into account qualitative indicators), and thus the estimation of the portfolio parameters (i.a. transition to quantitative matrices, revision of methodology of parameters estimation to new default indications as well as introduction of deeper structure of portfolios for the purposes of estimation of recovery rate and cure rate to make them better suited to credit risk – due to the attributes of exposure at default such as loan duration, amount of exposure, LTV level). Following these changes models used for calculation of write-downs have been updated. Moreover the Bank updated the level of individually significant exposures and upgrade the threshold from PLN 1 million to PLN 2 million, as well as included in estimation of recovery rate categories for which, due to the number of observations, it was possible to estimate RR level (extend the recovery period to 97 months in default). Due to the complex and multifaceted nature of the changes and the adaptation to the IT systems, the reliable estimate of their impact on impairment allowances as at 31 December 2016 is not possible on the date of these financial statements.

Derivatives, financial assets and liabilities measured at fair value through profit or loss

The fair value of derivatives, financial assets and financial liabilities not quoted on active markets is determined based on widely recognized measurement methods. All the models are subject to approval before application and calibrated to ensure that the results achieved reflect the actual data and comparable market prices. As far as practicable, the models use only observable data from an active market; however, under certain circumstances, the Bank estimates the relevant uncertainties (such as the counterparty risk, volatility and market correlations). Change in the assumptions adopted for these factors may affect the measurement of certain financial instruments.

Fair value of investment properties

The Group estimates the fair value of investment properties. Estimation reflects market conditions and is made based on a current valuation of properties.

Impairment of other tangible fixed assets

At the end of each reporting period the Group assesses the existence of impairment indicator for fixed assets. If such indicators are identified, the Bank estimates the value in use. Estimation of the value in use of fixed asset assumes, i.a. the adoption of the assumptions with respect to the amounts, timing of future cash flows that the Group may receive in respect of any asset and other factors. While estimating the fair value less costs to sell, the Group uses available market data or independent appraisals, which in principle are also based on estimates.

Valuation of provisions for retirement benefits

The provision for retirement severance pay is determined based on the valuation performed by an independent actuary and it is subject to revision at the end of each reporting period.

Impairment of goodwill

After its initial recognition, goodwill is measured at cost less any accumulated impairment allowances. Impairment tests are carried out once a year. Furthermore, as at each reporting date the assessment is made whether there are impairment triggers with respect to goodwill.

The Group assesses whether there are any circumstances as of the balance sheet date indicating that the carrying value of goodwill is lower than its recoverable amount. An annual goodwill impairment test is performed for this purposes, regardless of whether there is any evidence of goodwill impairment or not. The test is performed in accordance with IAS 36.

The recoverable amount is estimated according to the value in use of the cash generating units (hereinafter referred to as CGUs), attributed to goodwill. CGUs represent the lowest level within the entity at which the goodwill is monitored for internal management purposes not larger than an operating segment.

Value in use is the present estimated value of the future cash flows the Group expects to derive from further use of the CGU. Value in use includes the end (residual) value of the CGU. The residual value of the CGU is calculated by extrapolating cash flow projections beyond the forecast period, while applying a determined growth rate.

Forecasts related to future flows cover five years and are based on the following:

- historical data reflecting CGU potential with regard to cash flow generation,
- balance sheet and profit or loss account projections for the CGU as of the goodwill impairment test date,
- balance sheet and profit or loss account forecasts for the period covered by the forecast,
- assumptions included in the Group’s budget,
- analysis of the reasons for discrepancies between future cash flow forecasts and the actual flows obtained.

Future cash flows constituting the bases for value in use calculation reflect the value of potential dividends/additional capital contributions, taking into account a determined level of generated profit as well as regulatory capital necessary to maintain the assumed capital adequacy level. The present value of future cash flows is calculated using the adequate discount rate, taking into account the risk free rate, the risk premium, the low capitalization premium and the specific risk premium. The present value of future cash flows is compared to the carrying value (as of the date of the test) for the total of the following: goodwill and CGU net assets (CGU own funds and profits).

Items of deferred tax assets

The Group recognizes deferred tax asset based on the assumption that future tax profits will be achieved which will allow for its utilization. The decrease in the tax results in the future could make this assumption unjustified.

Economic useful life of property, plant and equipment and intangible assets

While estimating the useful life of particular type of property, plant and equipment and intangible assets are considered, i.a.:

- current average useful life reflecting on rate of physical usage, intensity, utilization, etc.,
- impact of technological obsolescence,
- the period of control over the asset and the legal limits or other similar limits on the use of the asset,
- whether the asset's useful life is dependent on that of other assets of the entity,
- other factors that can affect the useful life of this type of assets.

When the period of use of a given asset results from a contract term, the useful life of such an asset corresponds to the period defined in the contract. If, however, the estimated useful life is shorter than the period defined in the contract, the estimated useful life is applied. The Group reviews useful lives of assets annually, based on current estimates.

Although estimates used are based on best knowledge, actual results may differ from the applied estimates. The compliance of actual results with the estimated values is being revised in reporting periods.

6.3. Change in accounting estimates

In current reporting period the Group did not change the areas for which estimates were made.

7. Correction of prior period errors

In the 12-month period ended 31 December 2016 the Group did not make any corrections of prior period errors.

8. Net interest income

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Interest income related to:		
loans and advances to customers and finance lease	2,249,470	2,463,752
amounts due from banks and financial institutions	5,803	15,781
available-for-sale and held-to-maturity financial assets	243,100	226,086
derivative financial instruments	226,029	271,777
obligatory reserve	27,721	29,097
Total interest income	**2,752,123**	**3,006,493**
of which:		
interest income from impaired financial assets	200,658	226,215
interest income calculated using the effective interest rate in relation to financial assets not measured at fair value through profit or loss	2,526,094	2,734,716
Interest expense related to:		
amounts due to customers	1,275,930	1,569,538
amounts due to banks and financial institutions	46,978	57,654
derivative financial instruments	(54,082)	27,136
debt securities issued	166,617	156,455
Total interest expense	**1,435,443**	**1,810,783**
of which:		
interest expense calculated using the effective interest rate in relation to financial liabilities not measured at fair value through profit or loss	1,489,525	1,783,647
Net interest income	**1,316,680**	**1,195,710**

9. Net fee and commission income

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Fee and commission income related to:		
loans, advances and leases granted	25,735	50,648
bank accounts service	37,019	46,628
payment cards and credit cards	45,805	42,084
investment products and asset management	103,893	175,190
insurance products	67,853	183,902
brokerage activities	33,651	27,737
other fee and commission income	1,697	3,622
Total fee and commission income	**315,653**	**529,811**
Fee and commission expense related to:		
loans, advances and leases granted	10,836	16,986
payment cards and credit cards	45,995	42,938
investment and deposit products and asset management	105,421	110,446
insurance products	9,239	13,291
brokerage activities	7,964	11,218
other fee and commission expense	9,811	8,083
Total fee and commission expense	**189,266**	**202,962**
Net fee and commission income	**126,387**	**326,849**

10. Dividend income

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Dividends received:		
from financial instruments classified as available-for-sale	5,521	4,612
from financial instruments classified as held for trading	-	12
from financial instruments classified as measured at fair value through profit or loss	5,951	9,497
Total dividend income	**11,472**	**14,121**

11. Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Result on financial instruments, of which:	(1,538)	838
debt securities	3,249	4,889
equity securities	(4,421)	(4,170)
derivative instruments	(366)	119
Exchange differences on translation of foreign currency loans	16,293	17,255
Other exchange differences	20,427	18,590
Total result on financial instruments measured at fair value through profit or loss and net foreign exchange gains	**35,182**	**36,683**

12. Result on other financial instruments

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Result on financial instruments measured at fair value with changes in other comprehensive income, of which:		
debt securities	17,586	21,241
equity securities	67,642	2,718
Total result on other financial instruments	**85,228**	**23,959**

The result on equity securities in 2016 includes the result on sale of shares of Biuro Informacji Kredytowej S.A. and the revenue on settlement of the VISA Europe Ltd transaction.

13. Result on investments in subsidiaries, associates and joint ventures

On 10 February 2016 Getin Noble Bank S.A. signed an agreement with LC Corp. BV to sell 50.72% of owned shares in joint venture Getin Leasing S.A. Closing of the transaction took place on 29 February 2016.

Presented below is the settlement of the Group's result on sale of the shares of Getin Leasing S.A.:

	PLN thousand
Revenue from sale of shares	180,043
Carrying amount of sold shares according to equity method	(134,602)
Transaction costs	(21)
Profit before tax	**45,420**
Income tax*	(5,690)
Net profit	**39,730**

***** Item "Income tax" includes the settlement of deferred tax liability recognised in 2015.

In 2015 Getin Noble Bank S.A. sold 3,712 shares of its subsidiary Getin Leasing S.A., representing 49.28% of the share capital and 49.28% of the votes at the General Meeting of Shareholders to Getin Holding S.A. and lost control in the company. The Group's profit before tax on this transaction amounted to PLN 134,646 thousand. In addition, the Bank and Getin Holding S.A. signed an agreement for the exercise of joint control in Getin Leasing S.A. establishing the principles of cooperation in the management of the company.

14. Net other operating income and expense

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Other operating income:		
rental income	8,255	8,423
revenues from sales of products and services, goods and materials	10,633	13,192
recovered legal and debt collection costs	8,204	6,351
reversal of provisions and impairment charges for other assets	2,635	2,401
revenues from sale of non-financial assets	3,211	1,542
revenues from recovered bad debts	728	2,546
revenues from lease activities	-	13,445
revenues from brokerage activities	6,032	4,679
other income	12,808	9,656
Total other operating income	**52,506**	**62,235**

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Other operating expense:		
rental costs	2,849	3,616
cost of products, goods and materials sold	11,695	15,166
debt collection and monitoring of receivables, including legal costs	39,791	40,070
recognition of provisions and impairment charges for other assets	29,283	7,991
costs related to investment products	1,910	2,994
costs of promotions and rewards for customers	16,786	27,745
net loss from fair value adjustments of investment properties	17,607	15,226
paid compensations, penalties and fines	4,759	5,058
other expense	10,956	14,323
Total other operating expense	**135,636**	**132,189**
Net other operating income and expense	**(83,130)**	**(69,954)**

15. Administrative expenses

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Employee benefits	386,696	392,935
salaries	327,230	330,403
employment costs and other employee benefits	59,466	62,182
costs of management option schemes	-	350
Use of materials and energy	20,965	28,161
External services, of which:	240,792	305,214
marketing and advertising	28,163	66,937
IT services	40,079	32,830
lease and rental	101,231	111,776
security and cash processing services	6,017	6,634
telecommunication and postal services	30,405	36,970
legal and advisory services	8,727	12,674
other external services	26,170	37,393
Other taxes and charges	10,593	143,050 [1)]
Payments to the Bank Guarantee Fund and the Polish Financial Supervision Authority	114,230 [3)]	241,575 [2)]
Amortisation and depreciation	80,219	72,430
Other expenses	5,545	9,612
Total administrative expenses	**859,040**	**1,192,977**

1) of which PLN 134,056 thousand is an accrual for contribution to the Borrowers Support Fund

2) of which PLN 116,915 thousand is a payment to the Bank Guarantee Fund due to bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (SK Bank),

3) of which PLN 7,686 thousand is a payment to the Bank Guarantee Fund due to bankruptcy of Bank Spółdzielczy in Nadarzyn.

16. Net impairment allowances on financial assets and off-balance sheet provisions

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Loans and advances to customers, of which:	646,696	421,533
corporate	100,413	28,061
car	31,117	(15,950)
mortgage	254,103	207,446
retail	261,063	201,976
Amounts due from banks	(476)	221
Available-for-sale financial assets	(1,175)	(1,207)
Finance lease receivable	-	11,171
Off-balance sheet provisions	609	(1,705)
Investments in associates	13,900	-
Total net impairment allowances on financial assets and off-balance sheet provisions	**659,554**	**430,013**

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Impairment allowances/provisions at the beginning of the period	**2,387,467**	**3,730,062**
Net change recognised in the income statement	659,554	430,013
Utilisation - write-offs	(78,465)	(784,053)
Utilisation - sale of the portfolio	(134,717)	(714,850)
Net other decreases	(142,434)	(273,705)
Impairment allowances/provisions at the end of the period	**2,691,405**	**2,387,467**

17. Income tax

Current income tax is calculated according to Polish tax regulations. The basis of calculation is the pre-tax accounting profit adjusted for non-deductible costs, non-taxable income and other income and expenses changing the tax base as defined in the Act on Corporate Income Tax of 15 February 1992 with later amendments.

For purposes of financial reporting, deferred tax is calculated using the liability method in respect of temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The main items influencing additionally the tax burden in the income statement are dividends received from subsidiaries that are not included in the tax base, the prudential fee to the Bank Guarantee Fund, and the tax on certain financial institutions.

In addition, in 2016 the Group utilised for corporation tax purposes tax losses from previous years in the amount of PLN 105,137 thousand.

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Consolidated income statement		
Current income tax	10,147	10,843
Current tax charge	10,170	7,884
Adjustments related to current tax from previous years	(23)	2,959
Deferred income tax	5,789	7,769
Related to origination and reversal of temporary differences	(14,187)	116,219
Adjustments related to deferred tax from previous years	-	478
Tax loss	19,976	(108,928)
Tax charge in the consolidated income statement	**15,936**	**18,612**
Consolidated statement of comprehensive income		
Current income tax	-	-
Deferred income tax	(15,039)	10,219
Related to origination and reversal of temporary differences, of which:	(15,039)	10,219
related to available-for-sale financial assets	(17,862)	(655)
related to cash flow hedges	2,801	10,866
related to actuarial gains/ losses	22	8
Tax charge/(benefit) in the consolidated statement of comprehensive income	**(15,039)**	**10,219**
Total main components of tax charge	**897**	**28,831**

Reconciliation of the tax burden in the consolidated income statement	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Profit before tax	**(22,712)**	**72,957**
Tax charge at 19% tax rate	(4,316)	13,862
Non-taxable income	(3,691)	(14,917)
Non-tax-deductible costs	26,806	32,114
Temporary differences due to deferred tax calculation in SKA leasing companies *	-	(34,844)
Other permanent differences	(2,863)	22,397
Tax charge in the consolidated income statement	**15,936**	**18,612**

* differences relate to the period until 31 March 2015, i.e. until the date of loss of control in Getin Leasing S.A. Group.

2016	As at 01.01.2016	Changes in period			As at 31.12.2016
		Recognised in the income statement	Recognised in other comprehensive income	Acquisition/ sale of entities	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Deferred income relating to securities and derivatives	41,845	(240)	-	-	41,605
Deferred income relating to loans and deposits	71,027	(18,559)	-	-	52,468
Depreciation (fixed assets financed by investment tax relief)	553	(32)	-	-	521
Fees and commissions paid in advance	63,909	5,129	-	-	69,038
Surplus of tax amortisation	18,785	(784)	-	-	18,001
Valuation of available-for-sale financial assets	5,037	-	(4,106)	-	931
Provision for non-tax deductible amortisation of intangible assets acquired within an organised part of a business	5,860	(392)	-	-	5,468
Valuation of investment in joint venture	25,809	(25,809)	-	-	-
Other	2,491	4,496	-	-	6,987
Deferred tax liability	**235,316**	**(36,191)**	**(4,106)**	**-**	**195,019**
Interest on deposits, issue of own securities, derivative instruments and interest on bonds	103,931	(11,760)	-	-	92,171
Impairment allowances on loans	250,478	15,100	-	-	265,578
Tax loss	120,248	(19,976)	-	-	100,272
Revenue taxed in advance	12,170	(3,527)	-	-	8,643
Provisions for expected liabilities and costs	12,449	4,326	-	-	16,775
Valuation of available-for-sale financial assets	8,341	-	13,756	-	22,097
Valuation of cash flow hedge	24,994	-	(2,801)	-	22,193
Accrued contribution to the Borrowers Support Fund	25,471	(25,471)	-	-	-
Other	9,233	(672)	(22)	-	8,539
Deferred tax assets	**567,315**	**(41,980)**	**10,933**	**-**	**536,268**
Net deferred tax assets	**331,999**	**(5,789)**	**15,039**	**-**	**341,249**

2015	As at 01.01.2015	Changes in period			As at 31.12.2015
		Recognised in the income statement	Recognised in other comprehen-sive income	Acquisition/ sale of entities	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Deferred income relating to securities and derivatives	40,125	1,720	-	-	41,845
Deferred income relating to loans and deposits	69,005	2,022	-	-	71,027
Depreciation (fixed assets financed by investment tax relief)	586	(33)	-	-	553
Fees and commissions paid in advance	100,129	(36,220)	-	-	63,909
Surplus of tax amortisation	12,356	6,429	-	-	18,785
Valuation of available-for-sale financial assets	1,325	-	3,712	-	5,037
Provision for non-tax deductible amortisation of intangible assets acquired within an organised part of a business	6,229	(369)	-	-	5,860
Valuation of investment in joint venture	-	25,809	-	-	25,809
Other	2,476	236	-	(221)	2,491
Deferred tax liability	**232,231**	**(406)**	**3,712**	**(221)**	**235,316**
Interest on deposits, issue of own securities, derivative instruments and interest on bonds	141,889	(37,958)	-	-	103,931
Impairment allowances on loans	365,866	(115,388)	-	-	250,478
Tax loss	29,877	108,928	-	(18,557)	120,248
Revenue taxed in advance	33,351	(21,181)	-	-	12,170
Provisions for expected liabilities and costs	15,609	(2,728)	-	(432)	12,449
Valuation of available-for-sale financial assets	3,974	-	4,367	-	8,341
Valuation of cash flow hedge	35,860	-	(10,866)	-	24,994
Difference between value of leased assets and net lease investment	281,064	32,400	-	(313,464)	-
Accrued contribution to the Borrowers Support Fund	-	25,471	-	-	25,471
Other	28,445	2,281	(8)	(21,485)	9,233
Deferred tax assets	**935,935**	**(8,175)**	**(6,507)**	**(353,938)**	**567,315**
Net deferred tax assets	**703,704**	**(7,769)**	**(10,219)**	**(353,717)**	**331,999**

Tax settlements and other areas of operations under regulations may be subject to control of administration authorities which are entitled to impose high penalties and sanctions. No reference to well-established regulations in Poland cause occurrence of inconsistencies and ambiguities in regulations in force. The differences frequently presented in legal interpretations opinions concerning tax regulations, both within state authorities as well as between state authorities and companies, result in the occurrence of the areas of uncertainty and conflicts.

Tax settlements may be subject to control within 5 years, starting from the end of the year in which tax payment was made. As a result of tax controls, current Group's tax settlements may by increased by additional tax liability. In the opinion of the Group, as at 31 December 2016 appropriate provisions for recognised and quantifiable tax risk were made.

18. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing a net profit for the period attributable to ordinary shareholders of the parent company by weighted average number of ordinary shares issued within the given period.

	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Net profit/ (loss) attributable to equity holders of the parent (in PLN thousand)	(42,338)	44,166
Weighted average number of ordinary shares	883,381,106	883,381,106
Basic earnings per share (in PLN)	**(0.05)**	**0.05**

Diluted earnings per share

The diluted earnings per share is calculated by dividing net profit for the period attributable to the ordinary owners of the parent by the weighted average of issued ordinary shares outstanding during the period adjusted with the weighted average of the ordinary shares which would be issued as a result of the conversion of all dilutive potential equity instruments into the ordinary shares.

Neither in 2016 nor 2015 Getin Noble Bank S.A. did not issue convertible bonds or stock options. A diluted earnings per share is equal to basic earnings per share.

19. Cash and balances with the Central Bank

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Cash	179,465	170,250
Current account at the Central Bank	2,972,719	2,554,211
Other	11	11
Total cash and balances with the Central Bank	**3,152,195**	**2,724,472**

During the day, the Bank may use funds on the current account at the Central Bank to carry out current money settlements, however, it must ensure that the average monthly balance is maintained on this account in the amount consistent with the declaration of the obligatory reserve.

Funds on the obligatory reserve account bear interest of 0.9 of the NBP reference rate. As at 31 December 2016 and 2015 the interest rate was 1.35%.

20. Amounts due from banks and financial institutions

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Current accounts	1,178,576	2,295,811
Deposits and other receivables	254	206
Total amounts due from banks and financial institutions	**1,178,830**	**2,296,017**
Impairment allowances	(625)	(1,101)
Total amounts due from banks and financial institutions net	**1,178,205**	**2,294,916**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Receivables with variable interest rate	1,178,142	2,293,808
Receivables with fixed interest rate	63	1,108
Total amounts due from banks and financial institutions net	**1,178,205**	**2,294,916**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Current accounts and overnight deposits	1,178,576	2,295,810
Amounts due with term of maturity:	254	207
up to 1 month	116	11
from 1 to 3 months	11	16
from 3 months to 1 year	51	65
from 1 year do 5 years	76	115
Total amounts due from banks and financial institutions	**1,178,830**	**2,296,017**
Impairment allowances	(625)	(1,101)
Total amounts due from banks and financial institutions net	**1,178,205**	**2,294,916**

Current accounts of other banks and cash collateral receivables are presented in current receivables.

21. Financial assets held for trading

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Equity securities, of which:	3,600	1,079
listed	1,189	1,079
non-listed	2,411	-
Debt securities, of which issued by:	8,379	16,066
banks and financial entities	14	260
non-financial entities	8,365	15,806
Investment certificates	987	725
Total assets held for trading	**12,966**	**17,870**

Fair value of shares of listed companies was determined on the basis of published quotations from active market.

22. Financial assets at fair value through profit or loss

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Shares and stocks in other entities, of which:	161,882	166,817
non- listed	161,882	166,817
Rights to shares in other entities, of which:	10,090	-
non- listed	10,090	-
Total financial assets at fair value through profit or loss	**171,972**	**166,817**

Financial assets at fair value through profit or loss are only financial assets that were classified in this category on initial recognition.

In the public offer of E series bearer ordinary shares of Open Finance S.A. the Bank acquired 10,777,135 rights to new issue shares, of which 8,698,635 rights to shares were classified as at fair value through profit or loss. As of 10 January 2017 the rights to shares were introduced to trading on the main market of the GPW S.A.

Shares and stocks in other non-listed entities include a package of 858,334 ordinary registered shares of Towarzystwo Ubezpieczeń Europa S.A. (TU Europa), with a total nominal value of PLN 3,433 thousand, representing a total of 9.08% of the share capital and entitling to a total of 9.08% of votes at the general meeting of shareholders.

The fair value of the TU Europa shares on 31 December 2016 was based on the valuation prepared by an independent contractor specializing in this type of service. The valuation used a combination of three methods:

- index method based on the Price/Earnings ratio in a number of retrospective and prospective comparisons,
- index method based on the Price/Book value ratio, where the ratio was fixed for the comparison group as at 31 December 2016,
- income method assuming modelling of the entity's profits in the coming years and its ability to pay out dividends on the assumption of maintaining an appropriate level of solvency margin.

23. Derivative financial instruments

In the table below are presented nominal values of underlying instruments and fair value of derivative financial instruments according to their maturity:

	31.12.2016	up to 1 month	from 1 to 3 months	from 3months to 1 year	from 1 year to 5 years	over 5 years	Total	Fair value	
		PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	assets PLN thousand	liabilities PLN thousand
Currency transactions	**Currency swap**	**6,519,917,**	**1,162,068**	**-**	**-**	**-**	**7,681,985**	**11,473**	**12,547**
	Purchase	3,253,508	586,058	-	-	-	**3,839,566**		
	Sale	3,266,409	576,010	-	-	-	**3,842,419**		
	CIRS	**-**	**1,238,380**	**7,115,381**	**26,687,979**	**-**	**35,041,740**	**7,199**	**1,628,030**
	Purchase	-	581,796	3,429,486	12,716,190	-	**16,727,472**		
	Sale	-	656,584	3,685,895	13,971,789	-	**18,314,268**		
	FX/Purchase/Sale	**-**	**116**	**37,177**	**-**	**7,427**	**44,720**	**851**	**228**
	Purchase	-	-	28,715	-	869	**29,584**		
	Sale	-	116	8,462	-	6,558	**15,136**		
	Forward	**36,852**	**65,728**	**7,000**	**-**	**-**	**109,580**	**883**	**2,000**
	Purchase	18,496	32,951	3,496	-	-	**54,943**		
	Sale	18,356	32,777	3,504	-	-	**54,637**		
	Options	**-**	**5,082**	**22,130**	**-**	**-**	**27,212**	**6,409**	**6,409**
	Purchase	-	2,541	11,065	-	-	**13,606**		
	Sale	-	2,541	11,065	-	-	**13,606**		
Interest rate transactions	**Interest rate swap (IRS)**	**-**	**-**	**-**	**462,478**	**400,254**	**862,732**	**16,556**	**2,459**
	Purchase	-	-	-	231,239	200,127	**431,366**		
	Sale	-	-	-	231,239	200,127	**431,366**		
	Options	**8,234**	**-**	**16,470**	**1,619,795**		**1,644,499**	**8,673**	**9,217**
	Purchase	4,117	-	8,235	809,794	-	822,146		
	Sale	4,117	-	8,235	810,001	-	822,353		
Other transactions	**Indices and commodity contracts**	**6,011**	**20,096**	**139,675**	**-**	**-**	**165,782**	**9,292**	**2,770**
	Purchase	4,682	19,043	65,960	-	-	89,685		
	Sale	1,329	1,053	73,715	-	-	76,097		
	Share options	**-**	**-**	**-**	**-**	**165,658**	**165,658**	**39,393**	**-**
	Purchase	-	-	-	-	165,658	165,658		
	Other	**6**	**-**	**2,068**	**-**	**-**	**2,074**	**1,407**	**781**
	Purchase	-	-	1,454	-	-	1,454		
	Sale	6	-	614	-	-	620		
	Total derivative financial instruments	**6,571,020**	**2,491,470**	**7,339,901**	**28,770,252**	**573,339**	**45,745,982**	**102,136**	**1,664,441**

	31.12.2015	up to 1 month	from 1 to 3 months	from 3months to 1 year	from 1 year to 5 years	over 5 years	Total	Fair value	
								assets	liabilities
		PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Currency transactions	**Currency swap**	**11,119,623**	**1,581,690**	**-**	**-**	**-**	**12,701,313**	**8,678**	**47,575**
	Purchase	5,543,050	785,770	-	-	-	**6,328,820**		
	Sale	5,576,573	795,920	-	-	-	**6,372,493**		
	CIRS	**1,906,012**	**1,443,729**	**7,574,443**	**15,711,470**	**781,670**	**27,417,324**	**75,581**	**1,454,238**
	Purchase	959,870	664,835	3,686,886	7,343,837	390,835	**13,046,263**		
	Sale	946,142	778,894	3,887,557	8,367,633	390,835	**14,371,061**		
	FX/Purchase/Sale	**-**	**72**	**53,018**	**-**	**9,766**	**62,856**	**1,181**	**152**
	Purchase	-	68	33,723	-	-	**33,791**		
	Sale	-	4	19,295	-	9,766	**29,065**		
	Forward	**100,949**	**25,386**	**52,832**	**-**	**-**	**179,167**	**3,104**	**1,420**
	Purchase	50,581	12,764	27,677	-	-	**91,022**		
	Sale	50,368	12,622	25,155	-	-	**88,145**		
Interest rate transactions	**Interest rate swap (IRS)**	**-**	**-**	**67,130**	**140,924**	**422,734**	**630,788**	**19,385**	**3,171**
	Purchase	-	-	33,565	70,462	211,367	**315,394**		
	Sale	-	-	33,565	70,462	211,367	**315,394**		
	Options	**-**	**-**	**-**	**1,628,357**	**-**	**1,628,357**	**12,490**	**12,875**
	Purchase	-	-	-	814,070	-	**814,070**		
	Sale	-	-	-	814,287	-	**814,287**		
Other transactions	**Indices and commodity contracts**	**7,802**	**1,343**	**148,527**	**-**	**-**	**157,672**	**8,355**	**448**
	Purchase	3,698	551	66,518	-	-	**70,767**		
	Sale	4,104	792	82,009	-	-	**86,905**		
	Futures for indices	**-**	**9,116**	**-**	**-**	**-**	**9,116**	**-**	**68**
	Purchase	-	9,116	-	-	-	**9,116**		
	Sale	-	-	-	-	-	**-**		
	Futures for shares	**-**	**872**	**-**	**-**	**-**	**872**	**-**	**-**
	Purchase	-	-	-	-	-	**-**		
	Sale	-	872	-	-	-	**872**		
	Share options	**-**	**-**	**-**	**-**	**165,658**	**165,658**	**39,836**	**-**
	Purchase	-	-	-	-	165,658	165,658		
	Sale	-	-	-	-	-	-		
	Other	**-**	**-**	**1,777**	**-**	**-**	**1,777**	**301**	**512**
	Purchase	-	-	1,032	-	-	**1,032**		
	Sale	-	-	745	-	-	**745**		
	Total derivative financial instruments	**13,134,386**	**3,062,208**	**7,897,727**	**17,480,751**	**1,379,828**	**42,954,900**	**168,911**	**1,520,459**

24. Loans and advances to customers

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Loans and advances	43,489,589	45,909,845
Purchased receivables	5,753,081	5,600,442
Receivables from debit and credit cards	86,325	86,849
Total	**49,328,995**	**51,597,136**
Impairment allowances	(2,663,202)	(2,372,122)
Total net	**46,665,793**	**49,225,014**

31.12.2016	Gross value of unimpaired loans PLN thousand	Gross value of impaired loans PLN thousand	Allowances for unimpaired loans PLN thousand	Allowances for impaired loans PLN thousand	Total net PLN thousand
corporate loans	9,393,646	824,655	(11,212)	(297,674)	**9,909,415**
car loans	1,807,894	335,144	(7,075)	(180,227)	**1,955,736**
mortgage loans	27,228,415	4,795,828	(43,903)	(1,440,840)	**30,539,500**
retail loans	3,630,551	1,312,862	(39,741)	(642,530)	**4,261,142**
Total	**42,060,506**	**7,268,489**	**(101,931)**	**(2,561,271)**	**46,665,793**

31.12.2015	Gross value of unimpaired loans PLN thousand	Gross value of impaired loans PLN thousand	Allowances for unimpaired loans PLN thousand	Allowances for impaired loans PLN thousand	Total net PLN thousand
corporate loans	9,763,059	826,844	(15,620)	(233,124)	**10,341,159**
car loans	2,366,684	357,589	(9,268)	(176,002)	**2,539,003**
mortgage loans	28,883,623	4,473,842	(46,252)	(1,305,726)	**32,005,487**
retail loans	3,747,721	1,177,774	(41,348)	(544,782)	**4,339,365**
Total	**44,761,087**	**6,836,049**	**(112,488)**	**(2,259,634)**	**49,225,014**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Loans and advances to customers with due date:		
up to 1 month	5,144,559	4,280,373
from 1 month to 3 months	977,046	1,043,732
from 3 months to 1 year	4,010,810	4,433,487
from 1 year to 5 years	13,111,687	13,990,655
over 5 years	26,084,893	27,848,889
Total	**49,328,995**	**51,597,136**
Impairment allowances	(2,663,202)	(2,372,122)
Total net	**46,665,793**	**49,225,014**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Loans and advances to customers and finance lease receivables, of which:		
local government units	1,122,499	1,111,586
financial institutions other than banks	451,234	610,143
non-financial institutions other than natural persons	9,966,634	11,039,058
natural persons	35,125,426	36,464,227
Total	**46,665,793**	**49,225,014**

	31.12.2016	31.12.2015
The value of loans and advances with fixed interest rate	936	695
% of the total loans and advances portfolio	2.01%	1.41%

In 2016 Getin Noble Bank S.A. sold receivables, which consisted of both impaired loans and receivables written- off from the Bank's accounts, as well as the portfolio of loans without impairment. The nominal value of portfolio covered by the assignment agreements totalled to PLN 934 million (the carrying amount of the portfolio amounted to PLN 818 million, of which PLN 755 million was the portfolio of unimpaired lease receivables).

In 2015 the Group sold portfolio of impaired loans and receivables written-off with a total nominal value of PLN 1.1 billion.

Loans in Swiss francs

The following tables show the structure and the quality of mortgage loans denominated and indexed in Swiss francs:

31.12.2016	Gross value of unimpaired loans PLN thousand	Gross value of impaired loans PLN thousand	Allowances for unimpaired loans PLN thousand	Allowances for impaired loans PLN thousand	Total net PLN thousand
mortgage loans	11,243,005	1,817,478	(31,066)	(317,504)	**12,711,913**

31.12.2015	Gross value of unimpaired loans PLN thousand	Gross value of impaired loans PLN thousand	Allowances for unimpaired loans PLN thousand	Allowances for impaired loans PLN thousand	Total net PLN thousand
mortgage loans	11,614,974	1,767,117	(30,303)	(271,740)	**13,080,048**

The Polish Parliament discusses 3 draft laws on currency loans. In February 2017 the parliamentary subcommittee on Swiss franc asked the Polish Financial Supervision Authority to present the calculation of financial consequences of implementation of that laws as well as the methodology of this calculation. Receiving the calculation the subcommittee is to decide the further work on draft laws. As of the date of these financial statements the Group is not able to reliably estimate the likelihood of implementation of proposed solutions, as well as their potential impact on the financial statements of the Group.

On 13 January 2017 the Financial Stability Committee adopted a resolution No. 14/2017 on the recommendation on the restructuring of the FX housing loans portfolio.

The minister competent for financial institutions is recommended to:

- to complete work on the regulation on increasing the risk weight for exposures secured by mortgages on immovable property, in particular to increase the risk weight to 150% for exposures fully and completely secured by mortgages on residential property (refer to banks applying the standardized approach in the calculation of capital requirements, including Getin Noble Bank S.A.);
- to increase minimum LGD for exposures secured by mortgages on residential property (refer to banks applying the advanced approach in the calculation of capital requirements);
- to introduce changes in the rules of operation of the Borrowers' Support Fund leading to greater use of the Fund's assets;
- to impose a systemic risk buffer of 3% applying to all exposures on the territory of the Republic of Poland.

The Polish Financial Supervision Authority was recommended to:

- to modify the Supervisory Review and Evaluation Process (BION methodology) and supplement it with additional rules enabling the attribution of the appropriate capital add-ons with regard to additional risk factors related to FX housing loans;
- to supplement current Pillar II requirements with additional capital requirements related to operational risk, market risk and collective risk of default in the scope of risk factors related to FX housing loans.

The Bank Guarantee Fund was recommended to:

- to include the risk related to FX housing loans in the method used for the purpose of calculating contributions to the deposit guarantee fund paid by banks.

As of the date of these financial statements it is not clear how presented recommendations are to be realised and the Bank is not able to reliably estimate the likelihood of implementation of proposed solutions, as well as their potential impact on capital ratios, on financial situation and on financial results of the Group.

25. Financial assets

Available-for sale financial assets

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Available-for-sale debt securities	**11,882,782**	**12,475,799**
issued by central banks	824,780	3,798,693
issued by banks and other financial entities	315,727	140,674
issued by non- financial entities	25,560	42,214
issued by local government units	-	13,781
issued by the State Treasury	10,716,715	8,480,437
Impairment allowances	**(5,051)**	**(5,051)**
issued by non- financial entities	(5,051)	(5,051)
Total available-for-sale debt securities net	**11,877,731**	**12,470,748**
Available-for-sale equity securities	**133,705**	**76,804**
issued by banks and other financial entities	78,834	67,739
issued by non- financial entities	54,871	9,065
Impairment allowances	**(5,153)**	**(6,328)**
issued by non- financial entities	(5,153)	(6,328)
Total available-for-sale equity securities net	**128,552**	**70,476**
Total available-for-sale financial assets	**12,006,283**	**12,541,224**

Final settlement of the acquisition of Visa Europe Limited by Visa Inc.

In the second quarter of 2016 was finalized the acquisition of the Visa Europe Limited by Visa Inc. As a result of the settlement Getin Noble Bank S.A., as one of the beneficiaries, received:

- EUR 3.7 million in cash (PLN 16.4 million as translated at the rate of exchange on 21.06.2016).
- 1,357 VISA Inc. preferred Series C shares. The preferred shares will be converted into ordinary shares of Visa Inc. to 2028. The conversion factor of preferred shares into ordinary shares may be decreased depending on the current and potential litigation, in which one of the parties will be Visa Inc.
- deferred payment of EUR 0.3 million paid in second quarter of 2019.

The Bank measures fair value of preferred shares taking into account the risk of restricted transferability of shares as well as the risk of decrease of conversion factor. The preferred shares are classified as available-for-sale financial assets. As at 31 December 2016 the valuation of these shares amounted to PLN 4.9 million.

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Available-for-sale financial assets at the beginning of the period	**12,541,224**	**11,404,889**
Increases	164,950,592	248,570,792
Decreases	(165,361,869)	(247,452,167)
Impairment allowances	1,175	1,207
Fair value changes	(124,839)	16,503
Available-for-sale financial assets at the end of the period	**12,006,283**	**12,541,224**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Available-for-sale financial assets with maturity date:	11,882,782	12,475,799
up to 1 month	1,750,966	3,833,730
from 1 to 3 months	31,414	30,214
from 3 months to 1 year	1,361,723	1,609,080
from 1 year to 5 years	8,025,056	4,373,917
over 5 years	713,623	2,628,858
Equity securities of uncertain maturity	133,705	76,804
Total available-for-sale financial assets net	**12,016,487**	**12,552,603**
Impairment allowances	(10,204)	(11,379)
Total available-for-sale financial assets net	**12,006,283**	**12,541,224**

Held-to-maturity financial assets

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Held-to-maturity financial assets	**202,641**	**154,322**
issued by local government units	160,347	118,125
issued by non- financial entities	42,294	36,197
Impairment allowances	-	-
Total held-to-maturity financial assets net	**202,641**	**154,322**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Held-to-maturity financial assets with maturity date:	202,641	154,322
up to 1 month	606	62
from 1 to 3 months	4,274	1,250
from 3 months to 1 year	3,880	1,255
from 1 year to 5 years	60,366	36,710
over 5 years	133,515	115,045
Total held-to-maturity financial assets	**202,641**	**154,322**
Impairment allowances	-	-
Total held-to-maturity financial assets net	**202,641**	**154,322**

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Held-to-maturity financial assets at the beginning of the period	**154,322**	**136,780**
Increases	49,003	67,403
Decreases	(1,400)	(52,870)
Accrued interest and adjustments for amortized cost	716	3,009
Held-to-maturity financial assets at the end of the period	**202,641**	**154,322**

26. Assets pledged as security

	Carrying amount of assets pledged as security	
	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Available-for-sale financial assets:		
Treasury bonds as collateral for Guaranteed Deposit Protection Funds of the Bank Guarantee Fund	317,975	213,319
Treasury bonds as collateral for loans received	2,825,074	3,611,095
Treasury bonds as collateral in a repo agreement	259,953	638,420
Treasury bonds as collateral for receivables repayment	92,601	57,848
Total assets pledged as security	**3,495,603**	**4,520,682**

Getin Noble Bank S.A. will maintain the portfolio of assets being loan collaterals until the repayment of those liabilities. In accordance with art. 369 of the Act on Banking Guarantee Fund (BFG), deposit guarantee system and compulsory restructuring Getin Noble Bank S.A. maintains the guarantee fund in the amount set by the resolution of the BFG. The basis for calculation is the total amount of deposits received by the Bank on all accounts being basis for the calculation of the obligatory reserve.

27. Investments in associates

Information on associates of the Group is the following:

	% share in share capital and rights to votes by the Group	
	31.12.2016	31.12.2015
Open Finance S.A.	42.15%	42.15%

Open Finance S.A. is consolidated in the consolidated financial statements with equity method.

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Investments in associates at the beginning of the period	**347,112**	**334,919**
Share of profit/ (loss) *	(10,100)	12,193
Impairment allowance	(13,900)	-
Investments in associates at the end of the period	**323,112**	**347,112**

* Share of profit of associates included in the consolidated income statement was adjusted for the elimination of the Bank's share of unrealised gains on transactions between the Bank and entities of Open Finance S.A. Group.

Presented below is a summary of the financial data of the associate. The amounts shown come from the consolidated financial statements of the Open Finance S.A. Capital Group prepared in accordance with IFRS.

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Non-current assets	550,966	524,951
Current assets	80,581	110,922
Current liabilities	121,636	128,241
Non-current liabilities	122,296	110,162

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Sales revenues	317,831	370,870
Net profit/ (loss) *	(23,941)	28,927
Total comprehensive income/ (loss) *	(23,941)	28,927

* Attributable to equity holders of the parent

The fair value of the investment in Open Finance S.A., for which there are published price quotations amounted to PLN 32,303 thousand as at 31 December 2016.

Test for impairment of investment in associate Open Finance S.A.

In order to verify whether there was impairment of investment in associate in accordance with IAS 36, the carrying value of the investment is compared to its recoverable amount, which is the higher of fair value less costs to sell and value in use. The value in use of investment was estimated based on the expected results of the Open Finance S.A. Capital Group based on the budgets approved by management. Cash flow projections were developed for the three-year planning period, and then assumed the residual value in the form of a real constant flow based on the results in the third period of the forecast.

Assumed discount rate based on the cost of equity of Open Finance S.A. calculated using the beta indicator for comparable companies. The discount rate was increased due to the existing uncertainty as to maintain the current level of risk-free interest rate and in order to take into account the risk of non-compliance with the company's financial forecasts – the discount rate amounted to 8.58%.

Apart from flows resulting from projected profits of the Open Finance S.A. Capital Group, the business synergy between an associate and Getin Noble Bank S.A. was examined. The financial effects of the identified areas of synergy were estimated and discounted using the rate covering the risk of non-implementation of synergies – the discount rate for synergy was 10.58%.

The recoverable amount of the investment in the associate was the value of cash flows discounted at the above assumptions, plus the balance of cash and assets in the consolidated statement of financial position of the Open Finance S.A. Capital Group. By comparing this value with the carrying amount of the investment, it is concluded that on 31 December 2016 there is impairment of investment in associate recognised with impairment allowance in the amount of PLN 13.9 million.

28. Investments in joint ventures

On 10 February 2016 Getin Noble Bank S.A. signed with LC Corp B.V. agreement on sale of 50.72% of shares in joint venture Getin Leasing S.A. The transaction was closed on 29 February 2016.
As at 31 December 2016 the Group had no investment in joint venture.

	% share in share capital and rights to votes by the Group	
	31.12.2016	**31.12.2015**
Getin Leasing S.A.	-	50.72%

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Investments in joint ventures at the beginning of the period	**172,338**	**-**
Purchase/ (sale) of shares	(134,602)	150,072
Share of profit/ (loss)	304	22,266
Dividends received	(38,040)	-
Investments in joint ventures at the end of the period	**-**	**172,338**

29. Intangible assets

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Patents and licenses	151,996	127,551
Goodwill	51,307	51,307
Other intangible assets	34,744	41,891
Capital expenditure on intangible assets	52,179	47,798
Total intangible assets	**290,226**	**268,547**

Getin Noble Bank S.A. recognises as at 31 December 2016 an intangible asset in the form of relationships with deposit customers (*Core Deposit Intangible*) in the amount of PLN 34,551 thousand, which have been identified and measured in the acquisition of an organized part of a business of DnB Nord Polska S.A. and DZ Bank Polska S.A. with an initial value of PLN 58,807 thousand. The relationships with customers reflect the benefits of obtaining a cheaper source of finance of the Bank activities and are measured at present value of future benefits as the difference between the cost of finance obtained from external sources and the interest cost of the acquired current accounts including estimated customer behaviour.

The core deposit intangible is subject to straight-line amortisation over a period of 104 months, i.e. the period within which according to the assumptions the majority of benefits from the intangible assets are expected to be realised. The remaining amortisation period from the end of 2016 is 61 months for the relationships identified in the acquisition of an organised part of a business of DnB Nord Polska S.A. and 64 months for the relationships identified in the acquisition of an organised part of a business of DZ Bank Polska S.A.

Goodwill was recognised upon the acquisition of Bank Przemysłowy S.A. in Łódź in 2004. The Group assesses whether the impairment triggers exist as of the each reporting date, which may cause the carrying amount of goodwill to be lower than its recoverable amount. The impairment test with respect to the goodwill is performed annually, regardless whether the impairment triggers exist. The test is performed in accordance with IAS 36.

Impairment test with respect to goodwill recognised upon the acquisition of Bank Przemysłowy S.A.

The recoverable amount is estimated based on the value in use of the cash-generating units (CGU) which were assigned to goodwill arising from the acquisition of the Bank Przemysłowy S.A. The value in use is the present, estimated value of the future cash flows for the period of 5 years taking into account the end value (residual) of CGU. The residual value of CGU is calculated based on an extrapolation of the cash flows projections beyond the budget period using the long-term growth rate at the level of NBP long-term inflation rate (2.5%).

The forecasts of future cash flows cover 5-year period and are based on:

- historical data reflecting the CGU's potential for generating cash flows,
- forecasted balance sheet and income statement of the CGU as of the date of testing,
- forecasted statement of financial position and income statement for the period covered by forecast,
- assumptions included in the Bank's budget,
- analysis of variances between the previously forecasted and actual cash flows.

Future cash flows being a basis for the calculation of the value in use reflect the value of potential dividends or equity injections assuming a given level of generated profit and regulatory capital needed to maintain the assumed level of the capital adequacy.

The present value of cash flows is calculated using the discount rate of 10.52%, which includes the risk-free rate, risk premium, low capitalization premium and specific risk premium.

The carrying amount of goodwill amounted to PLN 51,307 thousand as at 31 December 2016 and no impairment was identified with respect to goodwill.

2016	Patents and licenses PLN thousand	Goodwill PLN thousand	Other intangible assets PLN thousand	Capital expenditures on intangible assets PLN thousand	Total PLN thousand
Gross value as at 01.01.2016	**266,605**	**51,307**	**61,964**	**47,798**	**427,674**
Increases, of which:	50,252	-	6	31,527	**81,785**
purchase	24,119	-	6	31,090	**55,215**
transfer of capital expenditures	26,036	-	-	-	**26,036**
other increases	97	-	-	437	**534**
Decreases, of which:	(16)	-	-	(27,146)	**(27,162)**
liquidation and sale	(16)	-	-	-	**,(16)**
transfer of capital expenditures	-	-	-	(26,036)	**(26,036)**
other decreases	-	-	-	(1,110)	**(1,110)**
Gross value as at 31.12.2016	**316,841**	**51,307**	**61,970**	**52,179**	**482,297**
Amortisation as at 01.01.2016	**122,373**	**-**	**20,073**	**-**	**142,446**
Increases, of which:	25,807	-	7,153	-	**32,960**
amortisation charge for the period	25,807	-	7,153	-	**32,960**
Decreases, of which:	(16)	-	-	-	**(16)**
liquidation and sale	(16)	-	-	-	**(16)**
Amortisation as at 31.12.2016	**148,164**	**-**	**27,226**	**-**	**175,390**
Impairment allowances as at 01.01.2016	**16,681**	**-**	**-**	**-**	**16,681**
Impairment allowances as at 31.12.2016	**16,681**	**-**	**-**	**-**	**16,681**
Carrying value as at 01.01.2016	**127,551**	**51,307**	**41,891**	**47,798**	**268,547**
Carrying value as at 31.12.2016	**151,996**	**51,307**	**34,744**	**52,179**	**290,226**

2015	Patents and licenses PLN thousand	Goodwill PLN thousand	Other intangible assets PLN thousand	Capital expenditures on intangible assets PLN thousand	Total PLN thousand
Gross value as at 01.01.2015	**215,428**	**51,307**	**67,216**	**42,999**	**376,950**
Increases, of which:	64,329	-	58	26,427	**90,814**
purchase	44,673	-	58	26,063	**70,794**
transfer of capital expenditures	17,942	-	-	-	**17,942**
other increases	1,714	-	-	364	**2,078**
Decreases, of which:	(13,152)	-	(5,310)	(21,628)	**(40,090)**
liquidation and sale	(9,264)	-	(4,415)	-	**(13,679)**
transfer of capital expenditures	-	-	-	(17,942)	**(17,942)**
other decreases *	(3,888)	-	(895)	(3,686)	**(8,469)**
Gross value as at 31.12.2015	**266,605**	**51,307**	**61,964**	**47,798**	**427,674**
Amortisation as at 01.01.2015	**113,916**	**-**	**15,607**	**-**	**129,523**
Increases, of which:	19,791	-	7,469	-	**27,260**
amortisation charge for the period	19,723	-	7,469	-	**27,192**
other increases	68	-	-	-	**68**
Decreases, of which:	(11,334)	-	(3,003)	-	**(14,337)**
liquidation and sale	(8,375)	-	(2,723)	-	**(11,098)**
other decreases *	(2,959)	-	(280)	-	**(3,239)**
Amortisation as at 31.12.2015	**122,373**	**-**	**20,073**	**-**	**142,446**
Impairment allowances as at 01.01.2015	**16,712**	**-**	**1,714**	**-**	**18,426**
Increases	880	-	-	-	**880**
Decreases	(911)	-	(1,714)	-	**(2,625)**
Impairment allowances as at 31.12.2015	**16,681**	**-**	**-**	**-**	**16,681**
Carrying value as at 01.01.2015	**84,800**	**51,307**	**49,895**	**42,999**	**229,001**
Carrying value as at 31.12.2015	**127,551**	**51,307**	**41,891**	**47,798**	**268,547**

* including derecognition of balances of sold subsidiary.

30. Property, plant and equipment

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Land and buildings	169,624	179,214
Plant and machinery	100,851	108,544
Vehicles	713	1,418
Other tangible fixed assets, including equipment	10,554	17,095
Assets under construction	2,474	1,407
Total property, plant and equipment	**284,216**	**307,678**

In 2016 and 2015 there were no restrictions of rights concerning legal title of the Group to fixed assets serving as collateral for liabilities.

In 2016 the value of compensations received from third-parties in respect of impairment or loss of fixed assets, recognised in profit or loss account, amounted to PLN 103 thousand (PLN 330 thousand in 2015).

2016	Land and buildings PLN thousand	Plant and machinery PLN thousand	Vehicles PLN thousand	Other tangible fixed assets PLN thousand	Assets under construction PLN thousand	Total PLN thousand
Gross value as at 01.01.2016	**327,665**	**247,597**	**7,448**	**40,663**	**2,438**	**625,811**
Increases, of which:	5,187	20,079	591	427	1,549	**27,833**
purchase	510	19,636	591	427	1,549	**22,713**
transfer from investment properties	4,677	-	-	-	-	**4,677**
transfer from assets under construction	-	443	-	-	-	**443**
Decreases, of which:	(15,321)	(4,821)	(4,670)	(417)	(1,513)	**(26,742)**
liquidation and sale	(14,324)	(3,039)	(2,924)	(408)	(1,070)	**(21,765)**
transfer to investment properties	(538)	-	-	-	-	**(538)**
transfer to non-current assets held for sale	(459)	-	-	-	-	**(459)**
transfer from assets under construction	-	-	-	-	(443)	**(443)**
other decreases	-	(1,782)	(1,746)	(9)	-	**(3,537)**
Gross value as at 31.12.2016	**317,531**	**262,855**	**3,369**	**40,673**	**2,474**	**626,902**
Depreciation as at 01.01.2016	**138,048**	**136,822**	**6,030**	**23,406**	**-**	**304,306**
Increases, of which:	13,517	26,451	361	6,930	-	**47,259**
depreciation charge for the period	13,517	26,451	361	6,930	-	**47,259**
Decreases, of which:	(14,061)	(3,382)	(3,735)	(379)	-	**(21,557)**
liquidation and sale	(14,056)	(2,747)	(2,051)	(370)	-	**(19,224)**
transfer to non-current assets held for sale	(5)	-	-	-	-	**(5)**
other decreases	-	(635)	(1,684)	(9)	-	**(2,328)**
Depreciation as at 31.12.2016	**137,504**	**159,891**	**2,656**	**29,957**	**-**	**330,008**
Impairment allowances as at 01.01.2016	**10,403**	**2,231**	**-**	**162**	**1,031**	**13,827**
Increases	-	-	-	-	-	**-**
Decreases	-	(118)	-	-	(1,031)	**(1,149)**
Impairment allowances as at 31.12.2016	**10,403**	**2,113**	**-**	**162**	**-**	**12,678**
Carrying value as at 01.01.2016	**179,214**	**108,544**	**1,418**	**17,095**	**1,407**	**307,678**
Carrying value as at 31.12.2016	**169,624**	**100,851**	**713**	**10,554**	**2,474**	**284,216**

2015	Land and buildings PLN thousand	Plant and machinery PLN thousand	Vehicles PLN thousand	Other tangible fixed assets PLN thousand	Assets under construction PLN thousand	Total PLN thousand
Gross value as at 01.01.2015	**325,191**	**234,319**	**112,713**	**46,412**	**13,425**	**732,060**
Increases, of which:	7,898	61,975	27,793	3,914	27,396	**128,976**
purchase	5,493	54,373	1,097	3,615	27,396	**91,974**
transfer from investment properties	2,044	-	-	-	-	**2,044**
transfer from assets under construction	361	7,602	26,696	299	-	**34,958**
Decreases, of which:	(5,424)	(48,697)	(133,058)	(9,663)	(38,383)	**(235,225)**
liquidation and sale	(3,813)	(42,732)	(8,213)	(9,379)	-	**(64,137)**
transfer to investment properties	(500)	-	-	-	-	**(500)**
transfer to non-current assets held for sale	(983)	-	-	-	-	**(983)**
transfer from assets under construction	-	-	-	-	(34,958)	**(34,958)**
other decreases *	(128)	(5,965)	(124,845)	(284)	(3,425)	**(134,647)**
Gross value as at 31.12.2015	**327,665**	**247,597**	**7,448**	**40,663**	**2,438**	**625,811**
Depreciation as at 01.01.2015	**126,742**	**150,615**	**28,299**	**26,079**	**-**	**331,735**
Increases, of which:	15,034	22,177	5,334	6,537	-	**49,082**
depreciation charge for the period	15,034	22,177	5,334	6,537	-	**49,082**
Decreases, of which:	(3,728)	(35,970)	(27,603)	(9,210)	-	**(76,511)**
liquidation and sale	(3,649)	(33,806)	(7,873)	(9,060)	-	**(54,388)**
transfer to non-current assets held for sale	(22)	-	-	-	-	**(22)**
other decreases *	(57)	(2,164)	(19,730)	(150)	-	**(22,101)**
Depreciation as at 31.12.2015	**138,048**	**136,822**	**6,030**	**23,406**	**-**	**304,306**
Impairment allowances as at 01.01.2015	**10,545**	**2,548**	**-**	**260**	**1,031**	**14,384**
Increases	-	-	-	-	-	**-**
Decreases	(142)	(317)	-	(98)	-	**(557)**
Impairment allowances as at 31.12.2015	**10,403**	**2,231**	**-**	**162**	**1,031**	**13,827**
Carrying value as at 01.01.2015	**187,904**	**81,156**	**84,414**	**20,073**	**12,394**	**385,941**
Carrying value as at 31.12.2015	**179,214**	**108,544**	**1,418**	**17,095**	**1,407**	**307,678**

* including derecognition of balances of sold subsidiary.

31. Investment properties

Investment properties are lands without or with buildings and premises being a separate property, which the Group purchased or acquired in exchange for a partial or total debt reduction under the loan/ advance granted, and which are held to earn rentals or for capital appreciation. There are no limitations in realization of the future economic benefits from investment properties and rights to transfer the related income and profits.

The Group applies a fair value model for investment properties under which after initial recognition investment properties are measured at fair value and gains or losses arising from a change in the fair value are recognised in profit or loss.

The fair value of investment properties as at 31 December 2016 was measured based on the valuation carried out on that day by independent valuers and Real Estate Valuation Unit in Getin Noble Bank S.A., which are skilled to make investment properties valuation, as well as experienced in such valuations made in locations were assets of the Group are situated. The valuation of the investment properties was carried out by reference to market prices of similar properties using the average price adjustment method or pair comparison in comparative approach. In case of lack of transactions concerning similar properties, the value of a property was specified by investment method in accordance with income approach, straight capitalisation technique. Estimating the fair value of properties, most favourable and best use approach was used (what is the valid use of these properties).

Fair value of investment properties was classified at level 3 of fair value hierarchy.

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Fair value of investment properties at the beginning of the period	**695,152**	**452,244**
Increases, of which:	127,749	306,506
purchase/ acquisition of property	124,782	305,250
transfer from non-current assets held for sale	2,429	756
transfer from property, plant and equipment	538	500
Decreases, of which:	(83,760)	(48,372)
sale of property	(6,689)	(5,458)
transfer to non-current assets held for sale	(66,635)	(26,782)
transfer to property, plant and equipment	(4,677)	(2,044)
other decreases	(5,759)	(14,088)*
Net loss on fair value adjustments	(17,607)	(15,226)
Fair value of investment properties at the end of the period	**721,534**	**695,152**

* including derecognition of balances of sold subsidiary.

In 2016 and 2015 the following amounts of income and expenses related with investment properties were recognised in the consolidated income statement:

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Rental income from investment properties	5,069	4,722
Direct operating expenses related to investment properties, which generated rental income in the period	658	876
Direct operating expenses related to investment properties, which did not generate rental income in the period	2,388	4,772

32. Finance and operating lease

Liabilities arising from finance leases

The Group uses cars, computer and technical equipment, as well as other facilities under finance leases. According to the agreements for the duration of the lease agreement the leased asset is used by the Group. In exchange for the acquired rights to use of the leased asset, the Group is required to make lease payments in the amounts and on the dates specified in the lease agreements. After the end of the lease the Group has the right to acquire the object of leasing, provided that it has fulfilled all obligations to the lessor. If the Group does not exercise the option to purchase the leased asset, it is required to return it to the lessor. Some lease agreements provide for the possibility of extending the period of the lease. There are no other restrictions. There are no contingent rents.

	Minimum lease payments		Present value of minimum lease payments	
	31.12.2016 PLN thousand	31.12.2015 PLN thousand	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Lease liabilities:	**12,358**	**12,810**	**12,139**	**12,635**
up to 1 year	4,790	1,634	4,762	1,627
from 1 year to 5 years	7,568	11,176	7,377	11,008
Future financial burden	(219)	(175)		
Present value of minimum lease payments	**12,139**	**12,635**		

As at 31 December 2016 the net carrying value of fixed assets used under finance leases amounted to PLN 18,354 thousand (PLN 15,254 thousand at 31 December 2015).

Operating lease agreements - Group as lessor

The Group earns income from renting business premises and residential investment properties held. These agreements are treated as operating lease. These agreements do not provide for contingent fees incurred by the lessee, from the provisions of the lease agreements do not arise limitations. Agreements are concluded mainly for a specified period of 2-5 years, with the possibility of renewal of the contract.

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Payments due from the balance sheet date:		
up to 1 year	3,335	2,455
from 1year to 5 years	5,202	3,196
Total future minimum payments arising from irrevocable operating leases	**8,537**	**5,651**

Liabilities arising from operating lease – the Group as lessee

Operating lease agreements in which the Group is the lessee, relate to lease of cars and properties used by the Group in the normal course of business. According to the agreements for the duration of the lease agreement the leased asset is used by the Group. In exchange for the acquired rights to use of the leased asset, the Group is required to make lease payments in the amounts and on the dates specified in the lease agreements. Some lease agreements provide for the possibility of extending the period of the lease.

Lease payments arising from operating leases are recognized as costs in the income statement on a straight-line basis during the lease term. Minimum lease payments due to operating leases recognized as a cost in the income statement for 2016 amounted to PLN 106,215 thousand (PLN 114,415 thousand in 2015).

Both in 2016, as well as in 2015, there were no significant contingent lease fees or irrevocable subleasing contracts.

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Payments due from the balance sheet date:		
up to 1 year	44,323	65,122
from 1year to 5 years	95,285	146,851
over 5 years	6,255	20,151
Total future minimum payments arising from irrevocable operating leases	**145,863**	**232,124**

The future minimum payments are calculated only for lease agreements concluded for a fixed term.

33. Non-current assets held for sale

Non-current assets held for sale as at 31 December 2016 and 2015 are properties not used by the Group and a separate portfolio of mortgage loans granted by Getin Noble Bank S.A., which are expected to be disposed within one year.

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Properties	21,604	19,432
Portfolio of mortgage loans	393,961	420,000
Total non-current assets held for sale	**415,565**	**439,432**

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Non-current assets held for sale at the beginning of the period	**439,432**	**4,494**
Increases, of which:	67,089	447,743
transfer from property, plant and equipment	454	961
transfer from investment properties	66,635	26,782
transfer from loans and advances to customers	19,961	420,000
Decreases, of which:	(110,917)	(12,805)
transfer to investment properties	(2,429)	(756)
sale/ liquidation	(62,488)	(12,049)
impairment allowances	(20,909)	-
other decreases	(25,091)	-
Non-current assets held for sale at the end of the period	**415,565**	**439,432**

Getin Noble Bank S.A. Group is going to sell mortgage receivables in the Debtor NS FIZ portfolio, working with all the major players in the professional debt trading industry, with a flexible approach to the final shape of the portfolio, due to market expectations determined by portfolio size, agreements characteristics and price conditions.

Currently, intensive work is underway to sell a significant part of the secured portfolio of receivables to an external securitization fund.

34. Other assets

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Receivables from sundry debtors, of which:	635,923	833,999
tax, subsidies and social insurance receivables	14,218	20,087
payment cards settlements	16,006	10,229
other receivables *	605,699	803,683
Accrued expenses	25,946	33,966
Income to be received	4,227	32,240
Recourses and guarantee deposits	3,695	6,455
Other assets	3,012	13,066
Total other assets	**672,803**	**919,726**
Impairment allowances	(27,692)	(23,092)
Total other assets net	**645,111**	**896,634**

* Item „other receivables" as at 31 December 2016 includes receivables from deferred payments, among others for sale of receivables portfolios (PLN 125 million) and sale of shares (PLN 188 million).

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Impairment allowances at the beginning of the period	**23,092**	**19,934**
Increases recognised in the income statement	2,797	4,883
Decreases recognised in the income statement	(291)	(516)
Other increases	2,094	1,718
Other decreases	-	(2,927)
Impairment allowances at the end of the period	**27,692**	**23,092**

35. Amounts due to banks and financial institutions

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Current accounts	65,884	52,187
Deposits of other banks and financial institutions	49,205	71,090
Loans and advances received	2,478,626	3,113,303
Repurchase agreements (repo)	-	591,237
Other amounts due to banks	1,712	995
Total amounts due to banks and financial institutions	**2,595,427**	**3,828,812**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Amounts due with variable interest rate	2,548,080	3,812,646
Amounts due with fixed interest rate	47,347	16,166
Total amounts due to banks and financial institutions	**2,595,427**	**3,828,812**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Current liabilities	69,455	107,038
Term liabilities with due date:	2,525,972	3,721,774
up to 1 month	3,375	15,047
from 1 month to 3 months	70,149	5,518
from 3 months to 1 year	881,628	1,226,583
from 1 year to 5 years	1,473,111	2,294,009
over 5 years	97,709	180,617
Total amounts due to banks and financial institutions	**2,595,427**	**3,828,812**

36. Amounts due to customers

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Amounts due to corporate entities	**7,853,932**	**8,875,920**
current accounts and overnight deposits	1,741,631	1,659,689
term deposits	6,112,301	7,216,231
Amounts due to budgetary entities	**2,424,948**	**3,175,828**
current accounts and overnight deposits	1,455,464	1,286,456
term deposits	969,484	1,889,372
Amounts due to natural persons	**42,762,248**	**43,674,473**
current accounts and overnight deposits	7,193,419	6,040,340
term deposits	35,568,829	37,634,133
Total amounts due to customers	**53,041,128**	**55,726,221**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Current accounts and overnight deposits	10,390,514	8,986,485
Term liabilities with due date:	42,650,614	46,739,736
up to 1 month	8,533,760	12,276,000
from 1 month to 3 months	13,794,276	11,639,112
from 3 months to 6 months	9,613,762	12,036,247
from 6 months to 1 year	5,623,194	6,574,090
from 1 year to 5 years	4,067,272	2,694,373
over 5 years	1,018,350	1,519,914
Total amounts due to customers	**53,041,128**	**55,726,221**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Amounts due with variable interest rate	11,010,030	9,997,086
Amounts due with fixed interest rate	42,031,098	45,729,135
Total amounts due to customers	**53,041,128**	**55,726,221**

37. Debt securities issued

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Debt securities issued, of which:	3,780,722	4,059,561
subordinated bonds	2,406,851	2,106,691
other bonds	1,365,855	1,944,135
bank securities	8,016	8,735
Interest, of which:	38,871	33,500
on subordinated bonds	31,184	26,646
on other bonds	7,656	6,819
on bank securities	31	35
Total debt securities issued	**3,819,593**	**4,093,061**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Amounts due with variable interest rate	3,800,659	3,974,220
Amounts due with fixed interest rate	18,934	118,841
Total debt securities issued	**3,819,593**	**4,093,061**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Debt securities issued with maturity date:		
up to 1 month	5,126	121,050
from 1 month to 3 months	21,006	50,174
from 3 months to 1 year	281,317	61,566
from 1 year to 5 years	3,147,094	3,571,389
over 5 years	365,050	288,882
Total debt securities issued	**3,819,593**	**4,093,061**

In 2016 the following issues and redemptions of bonds were made by Getin Noble Bank S.A.:

Type of securities issued	Issue date	Redemption date	Number of securities	Nominal value PLN thousand
Getin Noble Bank Bonds PP5-II	2016-03-31	2023-03-31	35,000	35,000
Getin Noble Bank Bonds PP5-III	2016-04-29	2023-04-28	35,000	35,000
Getin Noble Bank PP5-IV	2016-05-31	2023-05-31	50,000	50,000
Getin Noble Bank Bonds PP5-V	2016-07-28	2023-07-28	60,000	60,000
Getin Noble Bank Bonds PP5-VI	2016-08-31	2023-08-31	40,000	40,000
Getin Noble Bank Bonds PP6-I	2016-11-09	2023-11-09	40,000	40,000
Getin Noble Bank Bonds PP6-II	2016-11-30	2023-11-30	40,000	40,000
Getin Noble Bank Bonds PP6-III	2016-12-21	2023-12-21	40,000	40,000
Total			**340,000**	**340,000**

Type of redeemed securities	Issue date	Redemption date	Number of securities	Nominal value PLN thousand
Getin Noble Bank Bonds GNB15012	2015-07-10	2016-01-11	535	53,500
Getin Noble Bank Bonds SP-I	2015-03-23	2016-01-28	2,082	2,082
Getin Noble Bank Bonds SP-I	2015-03-23	2016-02-11	3,882	3,882
Getin Noble Bank Bonds GNB15017	2015-11-25	2016-02-25	150	15,000
Getin Noble Bank Bonds SP-I	2015-03-23	2016-03-10	711	711
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-03-11	1,089	10,890
Getin Noble Bank Bonds 32/2013	2013-06-20	2016-03-18	70	7,000
Getin Noble Bank Bonds 11/2013	2013-03-28	2016-03-29	30	15,000
Getin Noble Bank Bonds GNB15016	2015-10-13	2016-04-12	150	15,000
Getin Noble Bank Bonds SP-I	2015-03-23	2016-05-06	1,067	1,067
Getin Noble Bank Bonds 23/2013	2013-05-15	2016-05-16	80	40,000
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-05-19	52	520
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-05-24	83	830
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-05-27	1,641	16,410
Getin Noble Bank Bonds GNB14018	2014-12-19	2016-06-02	5,000	50,000
Getin Noble Bank Bonds SP-I	2015-03-23	2016-06-02	268	268
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-02	10,639	106,390
Getin Noble Bank Bonds GNB14003	2014-07-18	2016-06-02	6,500	65,000
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-06	2,361	23,610
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-08	1,739	17,390
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-14	5,005	50,050
Getin Noble Bank Bonds SP-I	2015-03-23	2016-06-14	90	90
Getin Noble Bank Bonds SP-I	2015-03-23	2016-06-17	878	878
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-17	1,500	15,000
Getin Noble Bank Bonds SP-I	2015-03-23	2016-06-22	353	353
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-22	2,065	20,650
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-24	100	1,000
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-28	1,499	14,990
Getin Noble Bank Bonds SP-I	2015-03-23	2016-06-29	249	249
Getin Noble Bank Bonds SP-I	2015-03-23	2016-07-01	444	444
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-07-01	565	5,650
Getin Noble Bank Bonds SP-I	2015-03-23	2016-07-06	535	535
Getin Noble Bank Bonds SP-I	2015-03-23	2016-07-08	750	750
Getin Noble Bank Bonds SP-I	2015-03-23	2016-07-13	539	539
Getin Noble Bank Bonds SP-I	2015-03-23	2016-07-18	543	543

Type of redeemed securities (continuation)	Issue date	Redemption date	Number of securities	Nominal value PLN thousand
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-07-18	23	230
Getin Noble Bank Bonds SP-I	2015-03-23	2016-07-20	107	107
Getin Noble Bank Bonds SP-I	2015-03-23	2016-08-03	427	427
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-08-04	12	120
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-08-09	36	360
Getin Noble Bank Bonds SP-I	2015-03-23	2016-08-09	71	71
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-08-12	51	510
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-08-17	8	80
Getin Noble Bank Bonds SP-I	2015-03-23	2016-08-24	35	35
Getin Noble Bank Bonds SP-I	2015-03-23	2016-08-25	35	35
Getin Noble Bank Bonds SP-I	2015-03-23	2016-09-06	83	83
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-09-08	50	500
Getin Noble Bank Bonds SP-I	2015-03-23	2016-09-13	63	63
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-09-15	50	500
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-09-16	37	370
Getin Noble Bank Bonds SP-I	2015-03-23	2016-09-20	35	35
Getin Noble Bank Bonds SP-I	2015-03-23	2016-09-23	295	295
Getin Noble Bank Bonds SP-I	2015-03-23	2016-10-07	171	171
Getin Noble Bank Bonds SP-I	2015-03-23	2016-10-19	21	21
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-10-20	200	2,000
Getin Noble Bank Bonds SP-I	2015-03-23	2016-10-24	995	995
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-10-26	60	600
Getin Noble Bank Bonds SP-I	2015-03-23	2016-10-27	53	53
Getin Noble Bank Bonds SP-I	2015-03-23	2016-11-02	2,558	2,558
Getin Noble Bank Bonds SP-I	2015-03-23	2016-11-23	35	35
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-11-24	46	460
Getin Noble Bank Bonds SP-I	2015-03-23	2016-12-02	35	35
Total			**58,836**	**567,020**

On 9 August 2016 the Supervisory Board of Getin Noble Bank S.A. approved a Public Subordinated Bond Issue Programme adopted by the Management Board. The bonds will be issued in at least two series to a maximum amount of PLN 750 million. The Bonds issued under the Programme are dematerialised securities in bearer form and are introduced to the alternative trading system Catalyst organised by the Warsaw Stock Exchange and BondSpot S.A.

On 21 March 2016 the Bank asked the Polish Financial Supervision Authority for acceptance of the *Plan of sustained profitability improvement of Getin Noble Bank S.A. for 2016-2019,* being the recovery program within the meaning of Article 142 of the Banking Law. This fact, in accordance with Issue Terms of Coupon Bonds, entitles bondholders to written request for earlier redemption of bonds at nominal value specified in Issue Terms plus interest accrued to the date of earlier redemption. Therefore the Bank redeemed bonds in the amount of PLN 403 million. The remaining amount that may be requested for earlier redemption is maximum PLN 129 million (of nominal value).

During the reporting period, there were no cases of overdue settlement by the Group of liabilities arising from repayment of principal or interest and redemption of own debt securities.

38. Other liabilities

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Interbank settlements	58,744	8,914
Sundry debtors, of which:	95,335	282,424
statutory liabilities	34,899	35,470
payment cards settlements	175	1,904
other *	60,261	245,050
Finance lease liabilities	12,139	12,635
Accruals	32,634	39,378
Deferred income	12,869	19,713
Liabilities related to brokerage activities	6,977	8,131
Other liabilities	37,377	29,811
Total other liabilities	**256,075**	**401,006**

* Item „Sundry debtors – other" as at 31 December 2015 includes an accrual for contribution to the Borrowers Support Fund in the amount of PLN 134 million.

39. Provisions

2016	Restructuring provision PLN thousand	Provision for litigation PLN thousand	Provision for employee benefits PLN thousand	Provision for issued commitments and guarantees PLN thousand	Total PLN thousand
Balance as at 01.01.2016	**-**	**4,477**	**15,721**	**2,865**	**23,063**
Recognition/ actualisation	3,248	1,293	918	6,158	**11,617**
Utilisation	(3,145)	(1,600)	(730)	-	**(5,475)**
Reversal	-	-	(2,344)	(5,549)	**(7,893)**
Other decreases	-	-	(78)	-	**(78)**
Balance as at 31.12.2016	**103**	**4,170**	**13,487**	**3,474**	**21,234**

2015	Restructuring provision PLN thousand	Provision for litigation PLN thousand	Provision for employee benefits PLN thousand	Provision for issued commitments and guarantees PLN thousand	Total PLN thousand
Balance as at 01.01.2015	**394**	**3,827**	**16,411**	**4,570**	**25,202**
Recognition/ actualisation	-	1,000	2,068	3,253	**6,321**
Utilisation	(155)	-	(856)	-	**(1,011)**
Reversal	(239)	(350)	(1,296)	(4,958)	**(6,843)**
Other decreases	-	-	(606)	-	**(606)**
Balance as at 31.12.2015	**-**	**4,477**	**15,721**	**2,865**	**23,063**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Provision for retirement benefits	1,469	1,356
Provision for unused holidays leave	12,018	14,365
Total provision for employee benefits	**13,487**	**15,721**

Provision for retirement benefits is created individually for each employee on the basis of an actuarial valuation performed by an independent actuary. The basis for calculation of provisions is the expected amount of retirement benefit that the Group is obliged to pay pursuant to the remuneration policy. The recognized provisions are equal to the discounted payments to be made in the future, taking into account staff turnover and relate to the period ending at the reporting date. Presented below are changes in a provision for future employee benefits:

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Present value of the obligation at the beginning of the period	**1,356**	**1,334**
Total expense recognised in the income statement, of which::	296	191
current service cost	164	161
past service cost	97	-
interest cost	35	30
Total expense recognised in the other comprehensive income, of which:	(118)	(41)
actuarial (gains)/ losses due to ex post adjustments of assumptions	(86)	9
actuarial (gains)/ losses due to changes in demographic variables	63	30
actuarial (gains)/ losses due to changes in financial variables	(95)	(80)
Benefits paid	(65)	(96)
Sale of a subsidiary	-	(32)
Present value of the obligation at the end of the period	**1,469**	**1,356**
Present value of the short-term obligation	**273**	**189**
Present value of the long-term obligation	**1,196**	**1,167**

The future payments of employee benefits have been discounted with 3.6% discount rate, i.e. at the level of yield of the safest long-term securities listed on the Polish capital market as at the valuation date. Effect of increase/ decrease in the discount rate on the change in the provision for retirement benefits is presented in the table below:

	31.12.2016		31.12.2015	
	+0.25 pp. PLN thousand	-0.25 pp. PLN thousand	+0.25 pp. PLN thousand	-0.25 pp. PLN thousand
Provision for retirement benefits	1,428	1,513	1,293	1,339

The provision for unused holidays leave is created individually for each employee based on the number of unused vacation days per employee.

Court proceedings

In 2016 Getin Noble Bank S.A. was not the party in any legal proceeding concerning liabilities or receivables which value would amounted to at least 10% of own funds of the Bank. Moreover, the total value of claims in all proceedings pending at 31 December 2016 concerning the Bank's liabilities also did not exceed 10% of own funds of the Bank.

As at 31 December 2016 the Bank recognised provision for litigation against the Bank, which in the opinion of the Bank implies the risk of outflow of funds for fulfilling the obligation. As at 31 December 2016 the provision amounted to PLN 4,170 thousand (PLN 4,477 thousand as at 31 December 2015).

In 2016 three collective actions pending against Getin Noble Bank S.A.: claim for compensation for funds lost by customers filled in 2011 (the case was suspended by the Court of Appeal) and two claims from 2014 on loans indexed to the CHF currency (as at 31 December 2016 no final decision was made on admitting a case to be heard in a class action). As at the end of 2016 the Bank did not recognised provision for litigation on collective actions. On the basis of analysis of the risk of particular cases, the Bank assessed that it is more likely that no present obligation exists as at 31 December 2016.

40. Share capital

Share capital of Getin Noble Bank S.A. amounts to PLN 2,411,630,419.38 and consists of 883,381,106 shares of series A with nominal value of PLN 2.73 each. The Bank's shares are traded on the Warsaw Stock Exchange.

In 2016 the Bank carried out the process of consolidation of shares to adjust the number of shares of the Bank to a fixed exchange ratio. To effectively carry out this process acquisition of one own share by the Bank was required, its redemption, reduction of share capital and registration of a change in the Articles of Association of the Bank. The amended value of the share capital and number of shares allowed to carry out the whole process and to establish a new nominal value of the shares at a level of PLN 2.73 each.

On 25 February 2016 the Financial Supervision Authority approved the changes to the Banks' Articles of Association as regard the reduction the share capital by the amount of PLN 238,512,898.71, by reduction of the nominal value of one share from PLN 1.00 to PLN 0.91.

On 20 April 2016 the District Court for the Warsaw City in Warsaw, XII Commercial Department of the National Court Register made an entry as regards reduction of the share capital of the Bank adopted on 10 December 2015 by Resolution No. VI/10/12/2015 of the Extraordinary General Meeting of the Bank. The Court registered the reduction of the share capital of the Bank by reduction of the nominal value of one share from PLN 1.00 to PLN 0.91. After the above registration the share capital of the Bank has been reduced by the amount of PLN 238,512,898.7, i.e. from the amount of PLN 2,650,143,319.00 to the amount of PLN 2,411,630,420.29.

On 21 September 2016 the District Court of Warsaw, XII Commercial Department of the National Court Register made an entry concerning the registration of the consolidation of the shares of Getin Noble Bank S.A. adopted on 18 April 2016 by Resolution No. XXVI/18/04/2016 of the General Meeting of the Bank. The Court registered the shares consolidation by combining every 3 ordinary bearer shares of a nominal value of PLN 0.91 each, into one share of the new nominal value amounting to PLN 2.73, so that the exchange ratio was set as 3:1. Shares consolidation was carried out with unchanged share capital i.e. PLN 2,411,630,419.38.

On 23 September 2016 the Management Board of Krajowy Depozyt Papierów Wartościowych S.A. adopted resolution no. 630/16 concerning the 3-rth October 2016 as the day of exchange of 2,650,143,318 shares of the Bank labelled with the code PLGETBK00012 to 883,381,106 shares of the Bank, due to a change of the nominal value of shares from PLN 0.91 to PLN 2.73.

After the exchange of shares there are 883,381,106 of Bank shares labelled with the code PLGETBK00012 with a nominal value of PLN 2.73 each.

41. Other capital

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Reserve capital	2,472,942	2,470,570
Revaluation reserve, of which:	(184,919)	(120,796)
valuation of available-for-sale financial assets	(90,237)	(14,071)
cash flow hedge	(94,611)	(106,555)
actuarial losses	(71)	(170)
Other capital reserves	279,394	40,881
Total other capital	**2,567,417**	**2,390,655**

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Revaluation reserve for available-for-sale financial assets at the beginning of the period	**(14,071)**	**(11,288)**
Increase/ (decrease) due to remeasurement	(68,324)	5,555
Accumulated (profit)/ loss transferred to income statement due to sale/ redemption	(7,842)	(8,338)
Revaluation reserve for available-for-sale financial assets at the end of the period	**(90,237)**	**(14,071)**

The drop in revaluation reserve on available-for-sale financial assets in 2016 is mainly due to the valuation of treasury bonds. Change in global expectations of inflation and economic growth, caused in large part by the presidential election in the United States, has led to a drastic increase in yields on global debt markets.

42. Dividends paid and proposed

In the reporting period the parent entity did not pay or declare any dividends.

On 18 April 2016 the General Shareholders Meeting of Getin Noble Bank S.A. decided to allocate the Bank's full profit for the year 2015 to increase the reserve capital.

The Management Board does not recommend the payment of dividends from the Bank's profit earned in 2016.

Recommendation of the Polish Financial Supervision Authority on dividend policy for banks

On 6 December 2016, the Polish Financial Supervision Authority published the recommendation on 2017 dividend policy for banks. In order to ensure further stable development of the sector, the Supervision Authority recommends that the dividend could be paid only by the banks that do not run the recovery plan, gain a positive assessment during supervisory review and evaluation process (BION), have an appropriate leverage ratio and meet the relevant capital requirements for other systematically important institution and criterion of significant exposure of foreign currency mortgage loans to households. By the end of the first quarter of 2017 the Polish Financial Supervision Authority will provide banks with individual recommendations regarding dividends, taking into account the current situation of the bank.

43. Contingent liabilities

The Group has commitments to grant loans. These commitments comprise approved but not fully utilised loans, unused credit card limits and unused overdraft limits on current accounts. The Group issues guarantees and letters of credit which serve as security in case the Group's customers will discharge their liabilities towards third parties. The Group charges fee for these commitments issued which are settled in accordance with the nature of the given instrument.

Provisions are recognised for contingent liabilities with the risk of loss of value of the underlying assets. If, at the balance sheet date, objective evidence has been identified that assets underlying contingent liabilities are impaired, the Group creates a provision in the amount of a difference between statistically estimated part of the off-balance sheet exposure (balance sheet equivalent of current off-balance sheet items) and the present value of estimated future cash flows. The created provision does not reduce the value of the assets underlying the off-balance sheet contingent liabilities and is recognised in the statement of financial positions under "Provisions" and in the income statement.

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Financial contingent liabilities granted	**2,123,989**	**2,096,910**
to financial entities	336,374	187,454
to non-financial entities	1,727,512	1,856,147
to budgetary entities	60,103	53,309
Guarantees granted	**164,387**	**170,405**
to financial entities	4,974	5,039
to non-financial entities	152,921	158,467
to budgetary entities	6,492	6,899
Total contingent liabilities granted	**2,288,376**	**2,267,315**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Financial	-	300,000
Guarantees	261,710	356,154
Total contingent liabilities received	**261,710**	**656,154**

44. Fair value of financial assets and liabilities

The fair value is the price that would be obtained for the sale of an asset or paid to transfer a liability in a transaction carried out in the normal manner between market participants at the measurement date. For many financial instruments their market values are not available, therefore fair values are estimated using various valuation techniques. The fair value of financial assets and liabilities was measured using a model based on estimates of present value of future cash flows by discounting cash flows using market interest rates.

For certain classes of assets and liabilities due to the lack of expected significant differences between the carrying value and fair value, due to their characteristics, it was assumed that the carrying amount is in line with their fair value.

The principal methods and assumptions used in estimating the fair value of financial assets and liabilities that in the consolidated statement of financial position are not stated at fair value are as follows:

Cash and balances with the Central Bank

Due to the short-term nature of these assets it is assumed that the carrying value is consistent with the fair value.

Amounts due from banks and financial institutions

The amounts due from banks consist primarily of deposits concluded in the interbank market and securities for derivatives transactions (CIRS). Deposits made in the interbank market are fixed-rate short-term deposits. For this reason, it was assumed that the fair value of amounts due from banks is equal to their book value.

Loans and advances to customers

The fair value was calculated for loans with a fixed payment schedule. For contracts where such payments have not been defined (e.g. bank overdraft), it is assumed that the fair value is equal to the carrying value. Similar assumption is accepted for payments due and the agreements with the impairment.

In order to calculate the fair value, based on the information recorded in transactional systems, for each loan agreement a schedule of principal and interest cash flows is identified, which are grouped by type of interest rate, start date, type of product and the currency in which the agreement is performed. So established cash flows were discounted using rates which take into account the current margins for each product type. In the case of foreign currency loans for which there is no adequate new loans trial in the period considered, a margins are established as for loans in PLN adjusted for historical differences between the margins for loans in PLN and in foreign currencies. Comparison of the amount of cash flows associated with the agreement discounted with the interest with its book value, determines the difference between the fair value and the carrying amount. Identifying right interest rate to discount the cash flow is based on the currency of the agreement, the product and date of the cash flow.

Amounts due to banks and financial institutions

It is assumed that the fair value of deposits from other banks and floating-rate loans taken out in the interbank market is their carrying amount.

Amounts due to customers

The fair value was calculated for fixed-rate deposits with a fixed maturity. For demand deposits, it is assumed that the fair value is equal to their book value. In order to calculate the fair value on the basis of data from transactional systems future principal and interest cash flows are determined which are grouped according to the currency of the period of the original deposit, the nature of the product and date of cash flows. The calculated cash flows are discounted with interest rate constructed as the sum of the market rate of the yield curve for each currency and deposits and completion date profit margins on deposits run in the final month of the period. The margin is calculated by comparing interest rates on deposits granted in the last month with market interest. The discounting period is defined as the difference between the end of the deposit (the accepted accuracy of the calendar month) and the date on which the report is presented. Calculated in this way, the discounted value is compared to the carrying value, with the result that we get the difference between the carrying value and fair value of the portfolio of contracts taken to the calculation.

Debt securities issued

It was assumed that the fair value of issued bonds that are not traded on an active market is their carrying amount. The fair value of debt securities listed on the Catalyst bond market was estimated on the basis of market quotations.

Due to the fact that for the majority of financial assets and liabilities carried at amortised cost (other than those described in detail above) using the effective interest rate the period of the next revaluation does not exceed 3 months, the carrying value of these items is not materially different from their fair values.

Presented below is a summary of the carrying amounts and fair values of financial assets and liabilities:

	31.12.2016		31.12.2015	
	Carrying amount PLN thousand	Fair value PLN thousand	Carrying amount PLN thousand	Fair value PLN thousand
ASSETS				
Cash and balances with the Central Bank	3,152,195	3,152,195	2,724,472	2,724,472
Amounts due from banks and financial institutions	1,178,205	1,178,205	2,294,916	2,294,916
Loans and advances to customers and finance lease receivables	46,665,793	43,855,342	49,225,014	47,376,279*
Held-to-maturity financial assets	202,641	207,193	154,322	152,265
LIABILITIES				
Amounts due to banks and financial institutions	2,595,427	2,595,427	3,828,812	3,828,812
Amounts due to customers	53,041,128	53,881,102	55,726,221	56,355,527
Debt securities issued	3,819,593	3,656,400	4,093,061	3,818,010

* The methodology for fair value measurement of the portfolio of loans and advances applied by the Group involving the identified cash flows discounted with interest rates taking into account the current margins for the type of product, resulted in an increase in credit spreads had a negative impact on the valuation of the portfolio at fair value. In the Group's opinion the current margins reflect the best currently existing market conditions, but at the same time their growth causes a decrease in the fair value of the "old" loan portfolio.

The Group classifies the individual financial assets and liabilities measured and presented in the financial statements at fair value by applying the following hierarchy:

Level 1

Financial assets and liabilities measured at fair value based on market quotations available in active markets for identical instruments. To this category the Group classifies available-for-sale debt and equity financial assets for which there exists an active market and a portfolio of liquid debt and equity securities of Brokerage House traded on a regulated market.

Level 2

Financial assets and liabilities measured using techniques based on market quotations directly observed or other information based on market quotations. To this category the Group classifies debt and equity securities of limited liquidity in the portfolio of Brokerage House traded on a regulated market, available-for-sale the NBP bills valued on the basis of the reference curve, investment certificates valued at the price announced by the fund, as well as derivatives.

Level 3

Financial assets and liabilities measured using techniques based quotations which cannot be directly observed on the market. To this category the Group classifies shares and equity instruments that are not traded on a regulated market, valued at cost less impairment losses and financial assets which fair value is determined using internal valuation models.

The carrying amounts of financial instruments at fair value by 3 hierarchy levels are presented below:

31.12.2016	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand	Total PLN thousand
ASSETS				
Financial assets held for trading	1,340	-	11,626	**12,966**
Financial assets at fair value through profit or loss	-	-	171,972	**171,972**
Derivative financial instruments	-	62,743	39,393	**102,136**
Available-for-sale financial assets	10,837,348	826,608	342,327	**12,006,283**
LIABILITIES				
Derivative financial instruments	-	1,664,441	-	**1,664,441**

31.12.2015	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand	Total PLN thousand
ASSETS				
Financial assets held for trading	1,764	-	16,106	**17,870**
Financial assets at fair value through profit or loss	-	-	166,817	**166,817**
Derivative financial instruments	-	129,075	39,836	**168,911**
Available-for-sale financial assets	8,482,523	3,799,477	259,224	**12,541,224**
LIABILITIES				
Derivative financial instruments	-	1,520,459	-	**1,520,459**

In 2016 and 2015 there were no movements between level 1 and level 2 of the fair value hierarchy, neither any asset or liability was moved from level 1 or level 2 to level 3 of fair value hierarchy.

Valuation techniques and inputs when measuring fair value of assets and liabilities classified at level 2 and 3 of the fair value hierarchy are as follows:

Derivative financial instruments

Option transactions characterised by a non-linear values profile are measured on the basis of valuation models (Black, 76, replication model, Bachelier model, Monte Carlo simulation) with parameters corresponding to the valued instruments. The market inputs in this case are foreign exchange rates, index levels, volatility surfaces of the option strategies and data allowing the construction of discount curves.

Other derivatives of the linear nature are valued based on discounted cash flow model using the discount curves and projection curves, generated on the basis of market quotations for financial instruments. Discount curves are constructed according to the concept of discounting on the basis of the cost of security, using OIS rates, SWAP points quotations, FRA transactions, IRS, tenor basis swaps and CCBS credit. In addition, for the instruments based on a variable interest rate curve the projection curve is constructed, based on quotations of FRA transactions, IRS and the appropriate reference indices.

Valuation of the put option on held shares portfolio, classified at level 3 of the fair value hierarchy, is made with the Black-Scholes model using the current market parameters and the fair value of the shares derived from the valuation of the company. The fair value of the option amounted to PLN 39,393 thousand. If share value increases by 1%, the fair value of the option will be reduced by PLN 602 thousand, if share value drops by 1%, the value of the option will increase by PLN 611 thousand.

The NBP bills

The measurement is based on the reference curve, constructed on the basis of short-term interbank deposits.

Shares and equity instruments without quoted market price

The Group considers the best measure of fair value of shares and equity instruments that do not have a quoted market price in an active market to be the cost less any impairment losses.

Shares classified as financial assets at fair value through profit or loss are valued based on a valuation made by an independent entity specialising in this type of service. The valuation is carried out using the income method and the indicator method based on market indicators (P/E and BV) of a group of comparable companies. Each of these methods is granted equal weight.

Corporate bonds

Measurement of available-for-sale debt securities categorised within Level 3 of the fair value hierarchy is based on a discounted cash flow model, and the discount rate for unrealised cash flows is based on market discount rate determined from the zero-coupon curve plus a risk premium, appropriate for a given security. The risk premium as an unobservable input on the market is calculated by an entity providing services of corporate bonds placement. Depending on the type of paper and the issuer, the premium is calculated as:

- the issue margin for securities issued in the last six months, if the issuer is not affiliated with the Bank,
- adjusted margin of other securities of the same issuer,
- adjusted margin of securities of other issuer (group of issuers) similar in its characteristics to the issuer of the measured securities.

The fair value of securities measured in accordance with the above valuation model (using margins in the range of 0.19% to 4.67%) amounted to PLN 336,235 thousand. In case of upward shift of risk margins by 25 basis points the fair value decreases by PLN 1,967 thousand, in case of downward shift of risk margins by 25 basis points the fair value increases by PLN 1,983 thousand.

Principles for the measurement of corporate securities are included in the procedure introduced by the Resolution of the Management Board of the Bank. The measurement is made in the Bank's transaction system based on the prices calculated by the Market Risk and Valuation Department – a unit responsible for the valuation of financial instruments in the Bank. The unit price of the securities is estimated periodically on the basis of the discounted cash flow model as described above.

45. Company Social Benefits Fund

The act of 4 March 1994 on the Company Social Benefits Fund with later amendments assumes that the Company Social Benefits Fund is created by employers employing above 20 employees on a full-time basis. The Group creates such fund and makes periodic allowances. The purpose of the Fund is to finance social activity, loans granted to its employees and other social costs.

The Group has compensated the Fund's assets with its liabilities to the Fund as these assets do not account for separate assets of the Group. As a result of the above, net balance of settlements with the Fund as at 31 December 2016 and 2015 amounted to PLN 0.

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Allowances for the Fund during the reporting period	2,961	3,329

46. Additional notes to the statement of cash flows

For the purpose of the consolidated statement of cash flows, the following classification of economic activity types has been assumed:

- operating activities – comprise the basic scope of activities related to provision of services by the Group entities, covering actions aimed at generating profit but not constituting investment or financial activity. The Group prepares the statement of cash flows from operating activities using the indirect method, under which a net profit for a reporting period is adjusted by non-cash effects of transactions, prepayments and accrued income and accrued costs and deferred income which relate to future or past inflows and outflows from operating activities and by other items of costs and revenues connected with cash flows from investing activities.
- investing activities – comprise activities related to purchasing and selling stocks or shares in subordinated entities as well as intangible assets and fixed assets. Inflows from investment activities include also received dividends related to held shares and stocks in other entities. Changes of debt securities available-for-sale are presented in operating activities.
- financing activities – include operations that involve raising funds in the form of capital or liabilities as well as servicing of the sources of finance.

Cash and cash equivalents

For the purpose of the statement of cash flows cash and cash equivalents comprise carrying amount of cash and cash equivalents and balances of current accounts and short-term deposits

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Cash and balances with the Central Bank	3,152,195	2,724,472
Current amounts due from banks	215,335	363,396
Short-term deposits in banks	110	986
Total cash and cash equivalents	**3,367,640**	**3,088,854**

Explanation of differences between changes of assets and liabilities as stated in the statement of financial position and changes presented in the statement of cash flows

2016	Change in statement of financial position PLN thousand	Statement of cash flows PLN thousand	Difference PLN thousand	
Change in amounts due from banks and financial institutions	1,116,711	967,774	148,937	1)
Change in derivative financial instruments (assets)	66,775	67,166	(391)	2)
Change in available-for-sale financial assets	534,941	458,779	76,162	3)
Change in held-to-maturity financial assets	(48,319)	(12,486)	(35,833)	4)
Change in non-current assets held for sale	23,867	26,039	(2,172)	5)
Change in amounts due to banks and financial institutions	(1,233,385)	(583,041)	(650,344)	6)
Change in derivative financial instruments (liability)	143,982	155,534	(11,552)	7)
Change in debt securities issued	(273,468)	15,465	(288,933)	8)
Change in provisions	(1,829)	(1,733)	(96)	9)

1) Change in part of receivables comprising cash equivalents (current accounts and overnight deposits in other banks) was excluded from “Change in amounts due from banks and financial institutions” and is presented under “Increase/decrease of net cash and cash equivalents”,
2) „Change in derivative financial instruments (asset)” does not include the valuation of cash flow hedge recognized in revaluation reserve,
3) „Change in available-for-sale financial assets” does not include valuation of financial assets recognized in revaluation reserve,
4) Change arising from the purchase of financial instruments was excluded from “Change in held-to-maturity financial assets” and presented in investing activities,
5) Change arising from sale of properties was excluded from “Change in non-current assets held for sale” and presented in investing activities,
6) Change arising from the payment of long term loan was excluded from “Change in amounts due to banks and financial institutions” and presented in financing activities,
7) “Change in derivative financial instruments (liabilities)” does not include the valuation of cash flow hedge recognized in revaluation reserve,
8) Change arising from the issue and redemption of long-term securities (bonds and deposit certificates) was excluded from “Change in debt securities issued” and presented in financing activities,
9) “Change in provisions” does not include actuarial gains/ (losses) recognized in the revaluation reserve.

47. Information on operating segments

The following reporting operating segments occur within the Group:

Banking

The scope of Group’s activities covered by this segment is providing banking services and conducting business activity in the area of: accepting cash deposits payable on demand or on maturity date, running the deposit accounts, running other bank accounts, granting loans, issuing and confirming bank guarantees and opening and confirming letters of credit, issuing bank securities, running banking cash settlements, granting cash loans, cheque and bill of exchange operations and operations relating to warrants, issuing payment cards and carrying out operations with the use of these cards, term financial operations, purchases and sales of cash debts, safeguarding of items and securities and providing safe boxes, running purchase and sale of foreign currencies, granting and confirming guarantees, performing ordered activities, connected with the issue of securities, intermediary in monetary transfers and settlements in foreign exchange transactions. The Group conducts its activity in this segment throughout the country, provides private banking services - current accounts for individual customers, savings accounts, deposits, consumer and mortgage loans, term deposits, both in zlotys and foreign currencies.

This segment contains also concierge services, and until 31 March 2015 it contained leasing activity including lease of vehicles, machinery and equipment as well as fleet management.

The segment's income includes all income recognised by Getin Noble Bank S.A., BPI Bank Polskich Inwestycji S.A., Noble Concierge sp. z o.o., GNB Leasing Plan Ltd, as well as Getin Leasing S.A. Group for the first quarter of 2015 and GNB Auto Plan sp. z o.o. until the end of the first quarter of 2016. The banking segment's income includes also the share in profits of joint venture Getin Leasing S.A. for two months of 2016. Assets of this segment comprise assets of Getin Noble Bank S.A., BPI Bank Polskich Inwestycji S.A., Noble Concierge sp. z o.o. and GNB Leasing Plan Ltd.

Financial intermediary

The scope of Group's activities covered by this segment is providing services related to financial intermediation - loans, savings, investment intermediation, as well as personal finance include legal information, experts' advices, banking offers comparison.

In this segment the Group also conducts brokerage activities associated with the securities and commodities, provides services in the preparation of investment analysis, financial analysis and other recommendations of a general nature relating to transactions in financial instruments.

The segment's income includes all income recognised by Noble Securities S.A. and ProEkspert sp. z o.o. In the financial intermediary segment's income the share in profits of associate Open Finance S.A. is also included. Assets of the segment include assets of Noble Securities S.A. and ProEkspert sp. z o.o.

Asset management

The scope of this segment is investing the funds collected through public offer of investment funds units, investment advice, creation and management of investment funds, investment portfolio and receivables portfolio management, and the provision of rental services and property management.

The segment's income includes income recognised by Noble Funds TFI S. A., Sax Development sp. z o. o., Debtor NS FIZ and entities of Property FIZAN Group. The segment assets include assets of Noble Funds TFI S. A., Sax Development sp. z o. o., Debtor NS FIZ and entities of Property FIZAN Group.

None of operating segments of the Group was combined with other segment in order to create the above reporting operating segments.

The Management Board monitors separately operational results of segments in order to make decisions relating to allocation of resources, assessment of results of such allocation and the results of activities. The basis for the assessment of the financial performance is pre-tax profit or loss. Income tax is monitored on the Group's entities level.

Transaction costs used in transactions between operating segments are established on the arm's length basis, similar to the transactions with unrelated third parties. Amounts of revenues, profit before tax and total assets presented in segments does not include consolidation adjustments and eliminations.

2016	Banking PLN thousand	Financial intermediary PLN thousand	Asset management PLN thousand	Consolidation adjustments PLN thousand	Total PLN thousand
Revenues of segments					
external	3,327,192	63,937	69,747	(59,444)	**3,401,432**
internal	252,204	18,443	11,870	(282,517)	-
Total revenues of segments	**3,579,396**	**82,380**	**81,617**	**(341,961)**	**3,401,432**
Profit before tax of segments					
external	75,427	30,658	(8,087)	(120,710)	**(22,217)**
internal	69,709	4,657	(2,230)	(72,136)	-
Total profit/ (loss) of segments	**145,136**	**35,315**	**(10,317)**	**(192,846)**	**(22,217)**
Segments assets as at 31.12.2016	**69,407,825**	**517,095**	**1,217,712**	**(4,625,486)**	**66,517,146**

Banking segment income includes interest income amounting to PLN 2,889,342 thousand Profit before tax also includes interest expense amounting to PLN 1,603,020 thousand.

2015	Banking PLN thousand	Financial intermediary PLN thousand	Asset management PLN thousand	Consolidation adjustments PLN thousand	Total PLN thousand
Revenues of segments					
external	3,879,092	44,775	72,575	10,612	**4,007,054**
internal	206,693	13,612	7,968	(228,273)	-
Total revenues of segments	**4,085,785**	**58,387**	**80,543**	**(217,661)**	**4,007,054**
Profit before tax of segments					
external	27,372	28,887	9,592	7,106	**72,957**
internal	16,537	(1,005)	(10,095)	(5,437)	-
Total profit/ (loss) of segments	**43,909**	**27,882**	**(503)**	**1,669**	**72,957**
Segments assets as at 31.12.2015	**74,670,455**	**532,709**	**1,539,649**	**(5,986,344)**	**70,756,469**

Banking segment income includes interest income amounting to PLN 3,147,919 thousand Profit before tax also includes interest expense amounting to PLN 1,982,444 thousand.

48. Related party transactions

The Getin Noble Bank S.A. Capital Group understands related party as the Group's associates and joint ventures with their subordinated entities and entities related to the ultimate parent – Mr. Leszek Czarnecki.

The consolidated financial statements comprise financial statements of Getin Noble Bank S.A. and the financial statements of subsidiaries mentioned in the note II.3.

31.12.2016	Statement of financial position						Off-balance sheet
	Assets – loans and purchased receivables	Assets – financial instruments	Assets – other receivables	Liabilities – deposits	Liabilities – other	Impairment allowances	Financial liabilities and guarantees granted
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Associates:: Entities of Open Finance S.A. Group	**-**	**79,981**	**28,510**	**17,037**	**429**	**9**	**-**
Entities related by the parent:	**5,589,724**	**108,931**	**294,154**	**3,579,190**	**395**	**105**	**38,085**
Entities of Getin Leasing S.A. Group	5,354,817	75,357	866	37,857	168	10	7,131
Entities of Getin Holding S.A. Group	24,868	8,559	142,612	30,631	220	10	4,625
Entities of LC Corp B.V. and LC Corp S.A. Group	210,036	25,015	150,673	3,506,275	7	85	26,320
Other entities	3	-	3	4,427	-	-	9
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**1,661**	**-**	**-**	**7,276**	**1**	**2**	**1,602**

31.12.2015	Statement of financial position						Off-balance sheet
	Assets – loans and purchased receivables	Assets – financial instruments	Assets – other receivables	Liabilities – deposits	Liabilities – other	Impairment allowances	Financial liabilities and guarantees granted
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Associates:: Entities of Open Finance S.A. Group	**-**	**80,903**	**7,810**	**12,047**	**1,876**	**-**	**-**
Joint ventures: Entities of Getin Leasing S.A. Group	**5,313,271**	**14,986**	**1,285**	**61,600**	**964**	**83**	**472**
Entities related by the parent:	**262,294**	**8,783**	**332,312**	**309,874**	**17,660**	**409**	**12,341**
Entities of Getin Holding S.A. Group	31,041	8,783	332,179	69,360	16,207	48	10,656
Entities of LC Corp B.V. and LC Corp S.A. Group	231,250	-	133	238,208	1,451	361	1,676
Other entities	3	-	-	2,306	2	-	9
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**324**	**-**	**-**	**6,717**	**-**	**-**	**2,024**

01.01.2016-31.12.2016	Income statement				
	Interest and commission income	Interest and commission expense	Other purchases	Other sale	Dividend income
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Associates:: Entities of Open Finance S.A. Group	**5,713**	**34,646**	**1,367**	**22,498**	**-**
Entities related by the parent:	**243,119**	**170,717**	**31,033**	**238,276**	**38,040**
Entities of Getin Leasing S.A. Group	219,339	34,283	6,043	5,421	38,040
Entities of Getin Holding S.A. Group	13,268	541	1,070	1,711	-
Entities of LC Corp B.V. and LC Corp S.A. Group	10,481	135,873	20,448	210,071	-
Other entities	31	20	3,472	21,073	-
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**32**	**182**	**-**	**480**	**-**

01.01.2015- 31.12.2015	Income statement				
	Interest and commission income PLN thousand	Interest and commission expense PLN thousand	Other purchases PLN thousand	Other sale PLN thousand	Dividend income PLN thousand
Associates:: Entities of Open Finance S.A. Group	**9,170**	**53,187**	**2,287**	**1,177**	**-**
Joint ventures: Entities of Getin Leasing S.A. Group	**171,874**	**943**	**5,396**	**2,852**	**-**
Entities related by the parent:	**40,200**	**22,282**	**32,994**	**307,858**	**-**
Entities of Getin Holding S.A. Group	30,562	18,698	951	306,909	-
Entities of LC Corp B.V. and LC Corp S.A. Group	9,624	3,575	25,425	933	-
Other entities	14	9	6,618	16	-
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**29**	**216**	**-**	**-**	**-**

Selected transactions with related parties

Sale of shares in Getin Leasing S.A.

On 10 February 2016 Getin Noble Bank S.A. signed an agreement with LC Corp B.V. to sell 50.72% of owned shares in Getin Leasing S.A. Closing of the transaction took place on 29 February 2016. The final price agreed by the parties amounted to PLN 180 million.

Sale of shares in Noble Funds TFI S.A.

On 29 April 2016 the Bank completed the sale transaction of 3 packages of 9,993 shares of Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. each, constituting 29.97% of its share capital, which were sold to Open Finance S.A., Open Life TU Życie S.A. and RB Investcom sp. z o.o.

Settlement of the securitization transaction

In April 2016 the Bank made a final settlement and closed the securitization transaction of the portfolio of car loans, carried out in December 2012 with the special purpose entity – GNB Auto Plan Sp. z o.o.

Sale of portfolio of receivables

In 2016 the Bank sold to Idea Bank S.A. the portfolio of unimpaired lease receivables of the nominal value of PLN 660 million.

Sale of shares in Biuro Informacji Kredytowej S.A.

On 19 December 2016 the Bank entered into agreement for sale 1,700 A series registered shares of Biuro Informacji Kredytowej S.A. to Idea Bank S.A. for a total price of PLN 50 million.

Purchase of lease receivables

The Bank finances leasing activities of companies of Getin Leasing Capital Group S.A. by purchase of lease receivables. As at 31 December 2016 the balance of purchased receivables amounted to PLN 5.3 billion.

Remuneration of the Management Board and the Supervisory Board of the Bank

	01.01.2016- 31.12.2016 PLN thousand	01.01.2015- 31.12.2015 PLN thousand
Management Board of the Bank	**10,435**	**7,003**
Short-term employee benefits	9,392	6,639
Share-based payments	1,043	364
Supervisory Board of the Bank	**1,243**	**1,084**
Short-term employee benefits	1,243	1,084
Total remuneration of the Management Board and the Supervisory Board of the Bank	**11,678**	**8,087**

Short-term employee benefits include salaries, bonuses and other benefits, also provisions for employee benefits, that are expense during financial year and are to be settled within 12 months from the end of the period, as well as variable components of remuneration resulting from the remuneration policy for the Bank's management described below, which are to be paid in the following year.

Share-based payments include valuation of rights to shares and deferred remuneration component awarded in the form of financial instrument, i.e. the phantom shares, according to the principles described below. Reported amounts include surcharges on remuneration related to social security liabilities, etc.

In 2016 and 2015 no post-employment benefits or termination benefits were paid.

Benefits for the management of the Bank resulting from variable components of remuneration

The variable components of remuneration of members of the Management Board of Getin Noble Bank S.A. are accounted in a manner ensuring effective realization of adopted in Getin Noble Bank S.A. policy of the variable components of remuneration. The amount of the variable components of remuneration is determined based on the appraisal of work in 3-years horizon and the financial results of the Bank. To evaluate the work performance, financial and non-financial criteria are used. The results of the Bank used in determining the variable components of remuneration embrace the cost of the Bank risk, cost of capital and liquidity risk in long-term perspective. The maximum ratio of variable remuneration to fixed remuneration cannot exceed 100% of the total fixed remuneration received in the Bank and in its subsidiaries.

The main financial criterion determining the amount of variable components of remuneration is a consolidated net profit (less share of profit of associates).

The amount of bonus granted and paid reflects financial situation of the Bank and appropriate level of risk ratios and may be subject to adjustments in this respect. If implementation of objectives differs from 100% of the assumed, the amount of variable components of remuneration is decreased or increased proportionally. Moreover, deferred variable components of remuneration are conditional and paid on the decision of Supervisory Board.

Payment of the variable components of remuneration granted for particular year is paid in accordance with the principles below:

- payment up to the amount of 30% of annual basic remuneration and no more than PLN 100 thousand is paid in cash;
- of the excess of variable components of remuneration over the above value, at least of 50% of each component of variable remuneration is financial instrument, which are phantom shares, and at least 40% of variable remuneration is deferred in accordance with principles regarding way and payment date, including 3-year appraisal period, adopted by the Bank;
- 40% of variable components of remuneration for particular year are paid in arrears in equal instalments in cash and financial instruments, in equal proportion of 50% in following three years, including 3-year appraisal period.

The variable remuneration is paid in the form of financial instruments – phantom shares, i. e. in the form of a cash payment, the amount of which depends on the price of the shares of the Bank, i. e. the average of closing prices of the Bank's shares on the Warsaw Stock Exchange of 90 calendar days prior to the payment of a particular tranche.

49. Remuneration of the auditor

The table below presents remuneration of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. paid or due for the year ended 31 December 2016 and 2015 split into types of services in net values:

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Statutory audit of the annual financial statements	386	386
Other certifying services, including the review of the financial statements	440	422
Total remuneration of the auditor	**826**	**808**

The remuneration does not include the statutory audits of standalone financial statements of the Bank's subsidiaries.

50. Employment

The number of employees in the Group as at 31 December 2016 and 2015 was as follows:

	31.12.2016	31.12.2015
Employment in persons	5,221	6,336
Employment in full-time equivalents	5,150.2	6,014.5

51. Subsequent events

After 31 December 2016 there were no events which were not disclosed in these financial statements which may significantly impact the future financial results of the Getin Noble Bank S.A. Capital Group.

III. RISK MANAGEMENT IN THE GROUP

Getin Noble Bank S.A. Capital Group, carrying out its operational activity, is subject to the following key risks: credit risk, liquidity risk, market risk (including interest rate and currency risk), solvency risk, operational risk and compliance risk.

The objective of asset and liability management policy is to optimize the structure of the balance sheet and off-balance sheet to achieve the assumed proportion of income in relation to the risk incurred. The management boards of the Group entities are responsible for managing risk at the strategic level. Depending on the level and nature of risk specialized advisory committees may be appointed in each entity, responsible for the specific types of risks. In the parent company of the Group – Getin Noble Bank S.A. – there are the following committees responsible for particular risk areas: the Credit Committee, the Advisory Committee, the Asset and Liability Committee or the Operational Risk Committee. These committees are responsible for managing their relevant risk areas at the operational level, monitoring risk levels as well as for the development of current risk management policies within the framework of strategies adopted by the management boards of the members of the Group, within internal limits and in line with the supervisory regulations.

Every entity of the Group takes into account the market regulations and requirements of supervisory authorities, especially the Polish Financial Supervision Authority regulations. The corporate governance concerning financial risk management policies is performed by supervisory boards of the Group entities.

1. Credit risk

Credit risk is the potential loss incurred by the entity connected with customer's failure to repay the debt or its part within terms described in the agreement.

Credit risk management in Getin Noble Bank S.A. aims at ensuring the safety of lending activities, while maintaining a reasonable approach to risk undertaken in its operations. In conducting its lending activities, the Bank follows the following rules:

- the Bank acquires and keeps in its portfolio the loan exposures which ensure the safety of the deposits held by the Bank and its capital by generating stable earnings,
- while making credit decisions the Bank investigates the risks resulting from the given transaction giving consideration to the general credit risk attached to the given client and the industry as well as other circumstances that may have an influence on the recoverability of the debt,
- a loan or other commitments are granted if the client meets the requirements established in the Bank's internal instructions.

The process of credit risk management in Getin Noble Bank S.A. is a continuous process aiming at:

- stabilization of risk of newly granted loans in the areas (products), which achieved a satisfactory level of risk,
- reduction of risk of newly granted loans in the areas (products) where the Bank recognizes the need to reduce risk,
- improvement of quality of the existing loan portfolio.

In other subsidiaries of the Group the credit risk does not exist or is very limited, because the subsidiaries do not conduct credit activity, but they are only involved in process of gaining customers and selling Bank's credit products. The Group cooperates only with financial institutions with no liquidity problems and servicing their debts regularly.

Structure and organization of credit risk management unit

The main participants of the system of credit risk management in the Bank are:

Supervisory Board of the Bank

The role of the Supervisory Board is to approve credit risk management strategy and credit policy, periodic assessment of realization by the Management Board of the Bank's credit strategy and policy, supervising the control function of credit risk management system and assessment of its adequacy and efficiency.

Management Board of the Bank

The Bank's Management Board is responsible for the development, implementation and updates of credit risk strategy and procedures, periodical reporting to the Supervisory Board on the effects of realization of credit policy and on functioning of credit risk management system, maintaining communication with the supervisory authorities and reporting to these authorities as well as making available to these authorities of all required by law information on credit risk. The Management Board of the Bank is also responsible for the development of credit risk management system and for supervising the management function over credit risk in all areas of the Bank's business.

Credit Committee of the Bank

The Bank's Credit Committee role is to support the Bank's Management Board in fulfilling its opinion-making and advisory functions in the process of taking credit decisions and making decisions on its own as part of the rights granted by the Management Board. It is also responsible for recommending to the Bank's Management Board system solutions relating to the determination of internal limits of exposure to issuers of securities and to other banks. The Credit Committee of the Bank reviews all aspects relating to credit risk of current transactions.

Advisory Committee of the Bank

Advisory Committee is an advisory body in the process of credit decision making (in accordance with credit decision making procedure currently in force in the Bank) in case of exposures below the competences of the Credit Committee of the Bank. The Advisory Committee of the Bank does not have decision-making power.

Credit Risk Committee

Credit Risk Committee serves as an advisory body in the process of credit risk management in the Bank. The scope of its tasks include: to assess the level of credit risk in the Bank, including concentration risk, counterparty, product and credit risk in the subsidiaries of the Bank, to recommend the level of "risk appetite" for a calendar year and to receive reports on its implementation during the year, to evaluate the results of stress tests carried out and to recommend taking certain actions, review reports, simulations, information on credit risk and/or debt recovery processes.

Credit Risk Division of the Bank

The Bank's organizational structure is adapted to credit risk management policy. The separated Credit Risk Division, which reports directly to the Member of the Management Board, consists of three departments:

- Department of Credit Risk Management is responsible for credit risk management at every stage of credit process in the Bank.
- Department of Systematic Analysis of Credit Risk executes tasks related with credit risk reporting in Bank's activities. Department is also responsible for calculating impairment allowances and capital requirements on credit risk.
- Department of Statistical Analysis executes tasks in the area of optimization of processes, which require developing statistical models, implementing scoring cards and monitoring of their effectiveness.

Internal Audit Department

The role of the Internal Audit Department is to control and assess the quality of credit risk management system and to conduct periodic reviews of the credit risk management process in the Bank. The aim of the Internal Audit Department is to identify any irregularities in executing by credit risk management system participants of their roles and tasks.

Credit risk management strategies and processes

The Bank has developed Credit strategy and policy and Credit exposures risk management strategy and policy, which define rules, guidelines and recommendations relating to credit activities. These documents serve also as a basic instrument for the realization of a selected strategy towards credit risk.

The policy towards credit risk is subject to review and adjustment taking into account both: external regulations (the PFSA resolutions) and to macroeconomic factors, which may, in the Bank's opinion, have influence on credit risk increase. In particular, since 2010 the Bank since continuously monitors the credit risk of lending activities and constantly modifies processes/ credit products adapting them to changing market realities.

In 2015 the Bank made amendments to the Strategy and policy of credit exposures risk in terms of continuity of Recommendation S on the maximum LTV for credit exposures secured by mortgages on residential property. The Bank continues its policy of limiting sale of foreign currency loans by ensuring full compliance of currency exposure with client's currency income to the newly granted loans secured by mortgages for retail customers. In case of corporate loans for financing business activities, loans in freely convertible currencies are granted only to customers who receive income from business activities in a particular currency or hedge against the risk of exchange rate fluctuations.

Strategy and policy of credit exposure risk management has also been adapted to the provisions of Recommendation U. The actions undertaken by the Bank have measurable impact on maintaining levels of risk within the "risk appetite" approved by the Management Board and the Supervisory Board.

Credit risk management in the Bank is performed on the basis of internal procedures concerning risk identification, measurement, monitoring and control. The Bank applies credit risk identification and measurement models related to its operations, expressed in specific credit risk assessment ratios, which are adopted to risk profile, scale and complexity.

The Bank conducts its lending activities in the following five areas:

- mortgage loans,
- private banking,
- financing of car purchases,
- other retail loans (cash loans, credit cards, debt limits in a current account),
- servicing small and medium-sized enterprises and local government units.

Within the above mentioned business areas, there are procedures for particular credit products. In order to ensure the objectivity of credit risk assessment, within the structure of commercial divisions, the sale process (gaining customers) has been separated from the evaluation and acceptance of customer's credit risk. A separate Credit Decision Area is responsible for evaluation and acceptance of particular loan applications.

The procedure of making credit decisions is approved by the Bank's Management Board. Credit authorization limits are granted to the Bank's staff on an individual basis, depending on their skills, experience as well as the functions fulfilled. Credit decisions which exceed the authorization limits granted to the Bank's individual employees are made by the Credit Committees, operating in the acceptance centres. The Bank's Credit Committee located in the Bank's headquarters is responsible for credit decisions exceeding the authorization limits granted to the Credit Committees in the acceptance centres. Credit decisions of the highest rank are made by the Bank's Management Board. Any changes to the decision making procedure must be approved by the Bank's Management Board.

Getin Noble Bank S.A. applies internal regulations which enable determination of the level and appetite for the credit risk that arises from granting a loan to the particular client (or from providing the client with other services giving rise to credit risk). Creditworthiness is evaluated, both at the stage of loan granting and monitoring, in the following manner:

- for individual persons – based on procedures relating to the assessment of client's creditworthiness, scoring is used for cash loans, car loans, credit cards and debt limits in a current account,
- for small and medium-sized enterprises – the assessment includes simplified analysis or ratio analysis.

Scoring system used by the Bank (for cash loans, car loans, credit cards and debt limits in a current account) assesses credit worthiness of individual persons by analysing both their social and demographic features and credit history. As a result, scoring system grants a scoring describing expected risk of transaction. The Bank, whilst determining the level of accepted risk (so called cut-off point in scoring), follows a rule to maximize its financial result taking into consideration 'risk appetite' approved by the Management Board of the Bank.

Credit ratings assigned to small and medium-sized enterprises are based on the score obtained in the assessment of financial standing as well as based on qualitative assessment (in which additional information on assessed entity possessed by the Bank is included – e.g. client verification in external databases, analysis of turnover in accounts, bank opinions on current debt, investment assessment or current sector situation assessment). On the basis of this assessment, entity risk category is determined (the Bank applies 6 risk categories), on the basis which the decision is made by the Bank whether to grant a loan. This approach allows for assessing client's creditworthiness based on information about timeliness of repayments and, it also enables scoring and valuation of collateral.

Scope and type of the risk reporting and measurement systems

The Bank monitors and assesses the quality of loan portfolio on the basis of an internal procedure which includes monitoring of the Bank's entire loan portfolio, both by individual units within the trading divisions and by credit risk units. The results of analyses performed by the above units are presented in periodic reports (monthly, quarterly and half-yearly). The conclusions are used for the purpose of current management of the Bank's credit risk.

The applied risk monitoring system includes individual risk monitoring (related to particular client) and overall monitoring of the Bank's entire loan portfolio.

As part of the overall monitoring of individual risk, the Bank performs periodic assessments of the borrower's financial and economic standing, timeliness of payments to the Bank as well as the value and condition of accepted collateral. Both the scope and the frequency of the above reviews are in line with external regulations and depend in particular on the type of the borrower, the amount of the loan exposure and the form of the collateral.

As part of the overall monitoring of the loan portfolio, credit risk management units perform a number of analyses and activities, including:

- monitor the quality of the Bank's loan portfolio for particular products,
- perform periodic assessments of exposure concentration risk including: industry risk (to determine maximum exposure concentration limits for particular industries), exposure concentration risk to individual entity and groups of related entities (to monitor so-called large exposures),
- perform an assessment of the financial standing of banks-counterparties, determine maximum concentration limits for particular banks,
- perform an on-going monitoring of major exposures and the limits set forth for mortgage loans,
- verify the accuracy and adequacy of the loan impairment allowances recognized by the Bank,

- perform stress tests for particular types of product groups,
- submit periodic management reports to the Supervisory and the Management Board.

In procedures and internal regulations of the Bank, within concentration risk management regulations, were described the limits of exposure concentration. The Bank limits the concentration of exposure to individual clients and capital groups. The Management Board of the Bank established the concentration limit at more restrictive level that the one required by the CRR Regulation, i.e. 5% of the Bank's own funds, however the sum of all large exposures (large exposure limit) cannot be higher than 400% of the Bank's own funds. As at 31 December 2016 (except the exposure to the governments and the Central Bank) only exposure to the group of entities related to the Bank by the parent and the exposure to GNB Leasing Plan Ltd. exceeds 10% of the Bank's own funds.

Risk management on currency and currency indexed loans

Getin Noble Bank S.A. systematically analyses the effect of changes in foreign exchange rates and interest rates on credit risk incurred in the area of car, mortgage and retail loans. The impact of the currency risk on the quality of foreign currency and indexed loans is analysed, and for mortgage loan portfolio the Bank analyses also the impact of foreign exchange rates on the value of collaterals.

The Bank conducts stress tests twice a year for mortgage loans, and once a year for car loans and retail loans. These tests are conducted based on the scenario that the value of Polish zloty will depreciate by 50% compared to other currencies or the scenario of the maximum annual change of the PLN course of the last 5 years (if greater than 50%), and under the assumption that the depreciation in the exchange rate will continue for the period of 12 months.

The Bank analyses the effect of changes in interest rates on credit risk incurred by the Bank. Stress tests concerning the effect of fluctuations in interest rates on the quality of loan portfolio are conducted on the assumption that interest rates will increase by 1,000 b.p.) and under the assumption that the increase in interest rate will continue for the period of 12 months. The Bank also analyses the influence of changes of unemployment rate on credit risk in the above mentioned portfolios.

At present retail loans and mortgage loans are granted by the Bank exclusively in Polish currency. For corporate loans, on business financing, loans in foreign currencies are granted exclusively customers who receives its income in particular currency or hedge against exchange rate risk.

Principles for using collateral and policies of risk reduction

In order to limit credit risk, the Bank accepts various legally acceptable collateral types, which are selected appropriately to product type and business area. Detailed procedures for collateral selection and establishment have been described in internal regulations and product procedures for individual trading areas. The adopted legal collateral should ensure that the Bank will satisfy itself in case of the borrower's default. In selecting loan collateral, the Bank considers the type and amount of loan, loan term, legal status and financial standing of borrower as well as risk of the Bank and other risks. The Bank prefers collateral in the most liquid forms i.e. in the forms that guarantee fast and full recovery of debt under recovery proceedings. Below are presented typical collaterals required by the Bank:

For mortgage loans the main collateral constitutes mortgage established on property with priority of satisfaction, as well as assignment of rights from the insurance policy in the case of fire or other accidental losses, property value decrease insurance policy, loss of job insurance policy and company bankruptcy insurance policy and insurance policy of low own contribution.

During car loans granting process the Bank requires registered pledge on the vehicle, partial or total assignment of vehicle property right as well as personal collaterals (blank promissory note, guarantee of a third party in the form of own promissory note or civil warranty) and insurance policies (i.e. death insurance policy or insurance policy against total disability of the borrower and assignment of rights from the insurance policy or indicating the Bank as the beneficiary of the policy).

Collaterals for consumer loans are: insurance policy and personal collateral (e.g. guarantee of a third party in the form of own promissory note or civil warranty).

Collaterals such as: mortgage established on the property with priority of satisfaction, registered pledge (on the property of the enterprise or total assignment of the enterprise property right of the borrower or registered pledge on the personal property of the borrower or the company's management) or cash deposit or pledge on funds on the trust account are one of corporate loans collaterals. Last but not least personal collaterals are important (guarantee of a third party in the form of own promissory note or civil warranty) and assignment of receivables.

Restructuring practices (forbearance)

The aim of the loan restructuring by the Bank is to maximize the efficiency of difficult debt management, i.e. to obtain the highest recoveries while minimizing the incurred costs related to the recovery of debts, ultimately aggravating the debtor.

The restructuring involves changing the terms of the loan repayment, which are individually set to each contract. Restructured exposures are exposures, which have been granted facilities in the form of a settlement with the debtor, who is experiencing or soon will be experiencing difficulties in meeting their financial obligations.

Restructuring of loan exposure is a renegotiation or amendment of the conditions of the loan agreement, receivables or investments held to maturity, resulting from the financial difficulties of the debtor or issuer.

Restructuring of loan exposure includes activities such as:

- capitalization of due receivables and determination a new instalments repayment schedule,
- renewal of repayment terms of debt both as regards the principal amount and interest (grace period in terms of principal and/or interest),
- postponement (extension) of principal and interest repayment dates differently in relation to the current repayment schedule (individual repayment schedule),
- withdrawal from charging interest for a certain time of the whole or part of the debt,
- periodic accumulation of interest,
- change in the financial conditions of transaction (in particular, changing the interest rate, extending the term of the loan),
- cancellation of a part of the outstanding principal,
- redemption or cancellation of debt recovery of all or a part of an unpaid interest, due until the date of signing the agreement,
- resignation from charging and collecting of all or a part of the interest due on debt, starting from the date of signing the agreement (contract), if repayment of the debt will be within the period specified in the contract,
- change of payment order provided for in the agreement (payments first for the repayment of principal),
- providing debtor in specific cases with new banking products that will support the implementation of the restructuring program, only if there is an evidence of the validity of this,
- conversion of all or a part of debt into shares or interests in property of the debtor, acquisition of the debtor's assets in exchange for the release of all or a part of the debt,

- release / sale of collateral,
- refinancing of debt (meaning the use of debt contracts to provide total or partial repayment of other debt agreements, of which the debtor is not able to deliver on past conditions).

The Bank renegotiates contracts with debtors who find themselves in financial difficulty and are unable to meet the original terms of the loan agreement. Part of the restructuring process is to assess the ability of the debtor to meet the conditions referred to in the restructuring annex (debt repayment on fixed dates). The Bank providing facilities to the customer (restructuring) make appropriate entries in the system, which enables the identification of restructured receivables portfolio. Restructured exposures are covered by the monitoring process. The debt after at least two years of quarantine period, in which at least half of the period it was regularly serviced, loses the status of restructured exposure and is known to be healed exposure/ timely settled.

For the purposes of the calculation of impairment allowances in accordance with IAS 39 and IAS 37 the Bank also introduced a definition of restructured exposure as the exposure that has been restructured and that is during a probable restructuring. The exposure is considered to be restructured until a probable restructuring, which is a minimum 12 months from the date of restructuring. If the exposure is not being repaid in a timely manner, a probable restructuring period is extended. Each time through a process of restructuring the Bank performs an impairment test to assess whether there has been a loss of cash flows associated with the restructuring. If this test indicates a significant impairment loss, the exposure is treated as impaired exposure.

Each restructured exposure is tested for impairment resulting from restructuring, as well as for the occurrence of other defined indications of impairment. In case of individually significant exposures, this test is carried out as an individual assessment and in case of a loss of value recognition, an impairment allowance is calculated using a method of estimating cash flows for individually significant exposures. Exposures individually insignificant are subject to collective assessment and in case of a loss of value recognition, an impairment allowance is calculated using statistical methods. If for the individually significant or individually insignificant contract no impairment indicators have been recognised, an allowance for incurred but not reported losses (IBNR) is calculated, however, the exposures during the probable restructuring are treated as exposures with increased risk, and for these exposures higher levels of impairment are calculated than for other contracts, for which an IBNR allowance has been recognised.

The following are data for the restructured exposures recognised in the calculation of impairment allowances in accordance with IAS 39:

Forborne exposures 31.12.2016	Gross value of unimpaired loans	Gross value of impaired loans	Allowances for unimpaired loans	Allowances for impaired loans	Total net value
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Loans and advances:					
individually assessed	175,450	1,113,383	(156)	(335,625)	953,052
collectively assessed	415,157	2,077,323	(14,831)	(760,622)	1,717,027
Total	**590,607**	**3,190,706**	**(14,987)**	**(1,096,247)**	**2,670,079**

Forborne exposures 31.12.2015	Gross value of unimpaired loans	Gross value of impaired loans	Allowances for unimpaired loans	Allowances for impaired loans	Total net value
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Loans and advances:					
individually assessed	443,874	1,457,036	(6,922)	(443,580)	**1,450,408**
collectively assessed	548,823	1,634,968	(22,131)	(567,617)	**1,594,043**
Total	**992,697**	**3,092,004**	**(29,053)**	**(1,011,197)**	**3,044,451**

Forborne exposures – by geographical segments	31.12.2016			31.12.2015		
	Gross value	Allowances, including IBNR	Total net value	Gross value	Allowances, including IBNR	Total net value
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Poland	3,721,331	(1,093,697)	**2,627,634**	3,980,863	(1,025,650)	**2,955,213**
Ireland	19,173	(6,463)	**12,710**	66,955	(6,795)	**60,160**
Great Britain	19,080	(7,214)	**11,866**	20,096	(5,146)	**14,950**
Other countries	21,729	(3,860)	**17,869**	16,787	(2,659)	**14,128**
Total	**3,781,313**	**(1,111,234)**	**2,670,079**	**4,084,701**	**(1,040,250)**	**3,044,451**

Forborne exposures – by type of debtor	31.12.2016			31.12.2015		
	Gross value	Allowances, including IBNR	Total net value	Gross value	Allowances, including IBNR	Total net value
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Loans and advances to:						
financial institutions other than banks	12,085	(5,064)	**7,021**	14,991	(7,953)	**7,038**
non-financial institutions other than natural persons	600,387	(217,360)	**383,027**	674,990	(225,243)	**449,747**
natural persons	3,168,841	(888,810)	**2,280,031**	3,387,044	(806,922)	**2,580,122**
local government units	-	-	**-**	7,676	(132)	**7,544**
Total	**3,781,313**	**(1,111,234)**	**2,670,079**	**4,084,701**	**(1,040,250)**	**3,044,451**

Forborne exposures – by type of debt	31.12.2016			31.12.2015		
	Gross value	Allowances, including IBNR	Total net value	Gross value	Allowances, including IBNR	Total net value
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
corporate loans	269,756	(76,264)	**193,492**	215,854	(66,911)	**148,943**
car loans	133,340	(79,419)	**53,921**	204,033	(92,557)	**111,476**
mortgage loans	3,029,507	(801,836)	**2,227,671**	3,237,373	(707,318)	**2,530,055**
retail loans	348,710	(153,715)	**194,995**	427,441	(173,464)	**253,977**
Total	**3,781,313**	**(1,111,234)**	**2,670,079**	**4,084,701**	**(1,040,250)**	**3,044,451**

Forborne exposures – by due dates	31.12.2016			31.12.2015		
	Gross value	Allowances, including IBNR	Total net value	Gross value	Allowances, including IBNR	Total net value
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
not overdue and overdue up to 30 days	1,502,824	(117,096)	1,385,728	1,867,340	(120,150)	**1,747,190**
overdue over 30 days to 90 days	338,594	(53,292)	285,302	478,090	(63,954)	**414,136**
overdue over 90 days	1,939,895	(940,846)	999,049	1,739,271	(856,146)	**883,125**
Total	**3,781,313**	**(1,111,234)**	**2,670,079**	**4,084,701**	**(1,040,250)**	**3,044,451**

Forborne exposures	31.12.2016	31.12.2015
	PLN thousand	PLN thousand
Value of collateral	2,603,444	2,986,077

Forborne exposures – change in balance	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Balance as at beginning of the period	**3,044,451**	**1,817,830**
Value of exposures recognized in the period	817,113	2,852,698
Value of exposures derecognized in the period	(1,015,991)	(859,359)
Repayments /other changes	(104,511)	(66,129)
Revaluation of impairment allowances	(70,983)	(700,589)
Balance as at end of the period	**2,670,079**	**3,044,451**

Structure of the loan portfolio

The structure of the Group's loan portfolio by type of a loan, geographical segments and economy sector as at 31 December 2016 and 2015 is presented in the following tables. Percentage share in loan portfolio presented in the tables below is calculated based on nominal values.

	% share in portfolio	
	31.12.2016	31.12.2015
Dolnośląskie	10.86	11.14
Kujawsko-Pomorskie	4.04	4.05
Lubelskie	2.91	3.03
Lubuskie	2.43	2.42
Łódzkie	5.14	5.15
Małopolskie	6.70	6.71
Mazowieckie	25.04	24.99
Opolskie	1.86	1.78
Podkarpackie	2.37	2.40
Podlaskie	1.34	1.35
Pomorskie	8.05	7.89
Śląskie	10.93	10.82
Świętokrzyskie	1.35	1.39
Warmińsko-Mazurskie	3.13	3.09
Wielkopolskie	7.94	7.91
Zachodniopomorskie	4.82	4.81
Resident of a foreign country	1.09	1.07
Total	**100.00**	**100.00**

	% share in portfolio	
	31.12.2016	31.12.2015
Agriculture and hunting	0.30	0.36
Mining	0.05	0.07
Manufacturing	1.89	2.11
Electricity and gas industry	0.04	0.09
Construction	2.93	3.28
Wholesale and retail	4.81	4.82
Transport, warehouse management and communication	3.63	3.83
Financial brokerage	0.67	0.90
Real estate management	3.41	3.28
Public administration	1.76	1.70
Other sections	5.15	5.40
Natural persons	75.36	74.16
Total	**100.00**	**100.00**

	% share in portfolio	
	31.12.2016	31.12.2015
Loans granted to natural persons:	75.36	74.16
car loans	1.88	1.66
instalment loans	0.41	0.57
housing, construction and mortgage loans	62.97	62.45
other loans	10.10	9.48
Corporate loans	24.64	25.84
Total	**100.00**	**100.00**

Maximum exposure of the Group to credit risk as of 31 December 2016 and 2015 without taking into account accepted collaterals and other factors improving loan quality is presented below:

Maximum exposure to credit risk	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Financial assets:		
Cash and balances with the Central Bank (except for cash)	2,972,730	2,554,222
Amounts due from banks and financial institutions	1,178,205	2,294,916
Financial assets held for trading	12,966	17,870
Financial assets at fair value through profit or loss	171,972	166,817
Derivative financial instruments	102,136	168,911
Loans and advances to customers and finance lease receivables	46,665,793	49,225,014
Available-for-sale financial assets	12,006,283	12,541,224
Held-to-maturity financial assets	202,641	154,322
Other financial assets	595,237	813,741
Total financial assets	**63,907,963**	**67,937,037**
Guarantee liabilities	164,387	170,405
Contingent liabilities	2,123,989	2,096,910
Total off-balance sheet liabilities	**2,288,376**	**2,267,315**
Total exposure to credit risk	**66,196,339**	**70,204,352**

For capital adequacy purposes, as part of the policy concerning application and valuation of loan collateral and collateral management, the Bank uses the most liquid collaterals such as bank deposits or debt securities issued by the NBP or the Polish government. As part of risk reduction techniques, the Bank uses the most liquid collaterals, valued on a monthly basis using the effective interest rate method, and in the context of unfunded credit protection guarantees provided by selected institutions and Bank Gospodarstwa Krajowego; in connection with the use of instruments of unfunded protection, the Bank analyses the concentration risk to suppliers of those collaterals.

Gross value of impaired loans and advances assessed individually is presented below:

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Corporate loans	320,690	313,341
Mortgage loans	1,675,276	2,344,215
Retail loans	24,884	38,361
Total impaired loans and advances assessed individually	**2,020,850**	**2,695,917**

Value of collateral used for calculating impairment allowance for loans individually significant as at 31 December 2016 amounted to PLN 0.83 billion (PLN 1.18 billion as at 31 December 2015).

Value of assets possessed in exchange for debts in 2016 amounted to PLN 80.3 million (PLN 141.8 million in 2015).

Credit quality of financial assets as at 31 December 2016 and 2015 is presented below.

31.12.2016	Current and not impaired	Overdue and not impaired			Overdue and impaired	Interest	Impairment allowances (including IBNR)	Total
		less than 1 month	from 1 to 2 months	over 2 months				
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Amounts due from banks and financial institutions	1,173,038	-	-	-	-	5,792	(625)	**1,178,205**
Financial assets held for trading	12,966	-	-	-	-	-	-	**12,966**
Financial assets at fair value through profit or loss	171,972	-	-	-	-	-	-	**171,972**
Loans and advances to customers, of which:	39,086,766	2,043,226	464,856	284,941	7,222,557	226,649	(2,663,202)	**46,665,793**
corporate loans	7,845,943	1,261,329	173,362	101,225	822,535	13,907	(308,886)	**9,909,415**
car loans	1,669,968	108,095	17,235	6,992	334,939	5,809	(187,302)	**1,955,736**
mortgage loans	26,154,723	535,746	235,005	156,066	4,759,052	183,651	(1,484,743)	**30,539,500**
retail loans	3,416,132	138,056	39,254	20,658	1,306,031	23,282	(682,271)	**4,261,142**
Available-for-sale financial assets, of which:	12,005,442	-	-	-	11,045	-	(10,204)	**12,006,283**
issued by central banks	824,780	-	-	-	-	-	-	**824,780**
issued by banks and other financial institutions	394,561	-	-	-	-	-	-	**394,561**
issued by non-financial institutions	69,386	-	-	-	11,045	-	(10,204)	**70,227**
issued by the State Treasury	10,716,715	-	-	-	-	-	-	**10,716,715**
Held-to-maturity financial assets, of which:	202,641	-	-	-	-	-	-	**202,641**
issued by local government units	160,347	-	-	-	-	-	-	**160,347**
issued by non-financial institutions	42,294	-	-	-	-	-	-	**42,294**
Total financial assets	**52,652,825**	**2,043,226**	**464,856**	**284,941**	**7,233,602**	**232,441**	**(2,674,031)**	**60,237,860**

31.12.2015	Current and not impaired	Overdue and not impaired			Overdue and impaired	Interest	Impairment allowances (including IBNR)	Total
		less than 1 month	from 1 to 2 months	over 2 months				
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Amounts due from banks and financial institutions	2,289,550	36	-	-	-	6,431	(1,101)	**2,294,916**
Financial assets held for trading	17,870	-	-	-	-	-	-	**17,870**
Financial assets at fair value through profit or loss	166,817	-	-	-	-	-	-	**166,817**
Loans and advances to customers, of which:	38,515,060	5,234,850	489,646	281,380	6,751,759	324,441	(2,372,122)	**49,225,014**
corporate loans	7,850,444	1,671,285	171,931	61,531	823,547	11,165	(248,744)	**10,341,159**
car loans	2,150,885	183,644	18,340	5,954	357,261	8,189	(185,270)	**2,539,003**
mortgage loans	25,034,392	3,188,426	262,273	191,622	4,399,050	281,702	(1,351,978)	**32,005,487**
retail loans	3,479,339	191,495	37,102	22,273	1,171,901	23,385	(586,130)	**4,339,365**
Available-for-sale financial assets, of which:	12,539,640	-	-	-	12,963	-	(11,379)	**12,541,224**
issued by central banks	3,798,693	-	-	-	-	-	-	**3,798,693**
issued by banks and other financial institutions	208,413	-	-	-	-	-	-	**208,413**
issued by non-financial institutions	38,316	-	-	-	12,963	-	(11,379)	**39,900**
issued by local government units	13,781	-	-	-	-	-	-	**13,781**
issued by the State Treasury	8,480,437	-	-	-	-	-	-	**8,480,437**
Held-to-maturity financial assets, of which:	154,322	-	-	-	-	-	-	**154,322**
issued by local government units	118,125	-	-	-	-	-	-	**118,125**
issued by non-financial institutions	36,197	-	-	-	-	-	-	**36,197**
Total financial assets	**53,683,259**	**5,234,886**	**489,646**	**281,380**	**6,764,722**	**330,872**	**(2,384,602)**	**64,400,163**

2. Operational risk

Definition and purpose of operational risk management

Operational risk is a possibility of incurring a loss as a result of maladjustment or failure of internal processes, people and system or of external events, including also legal risk. Within operational risk management, the Group realises strategic medium- and long-term goals and short-term operational goals, which execution aims to achieve strategic goals.

The main strategic goal of operational risk management is to optimize internal business and non-business processes, allowing limiting costs and losses as well as increasing operational security and limiting reputational risk. Operational risk management is targeted to prevent threats, effective decision making, set priorities and resources allocation, ensuring better understanding of potential risk and possible undesirable consequences.

The main operational goal of operational risk management is to complete identification of operational risk and possibly most precise measurement of its size and assessment of its profile. For this purpose, solutions within measurement and operational risk management model are improved, enabling in the future the application of advanced measurement methods, sensitive to operational risk, considering factor and parameters of operational risk specific for the Group, in particular for the Bank, i.e. strictly related to its operating profile.

Structure and organization of the operational risk management unit

The process of operational risk management is actively contributed by:

- all elements of Bank's organizational structure – areas, divisions and organizational units of the Bank's headquarter, operational units (constituting local organizational Bank units);
- related entities – Bank's subsidiaries;
- third parties – franchise units and agencies.

Organizational units of operational risk management include:

- system units – also called as technical system units – responsible for systemic operational risk management, establishing internal regulations and developing solutions, which are used to current operational risk management, performing also tasks relating to current operational risk management;
- operational units – dealing with current operational risk management in their everyday activities.

In all divisions and at all levels of the Bank's organizational structure, as well as in related entities and third parties, the following groups of units, persons and functions, which are executed at three following levels are to be distinguished:

- the first, basic level – units and persons dealing with operational risk management in their everyday activities;
- the second, supervisory level – people holding managerial positions, performing functional control;
- the third, superior level – functioning in centralized form, which main function is operational risk management. It is realized by people fulfilling tasks of separated operational risk management unit, which is part of Operational Risk Management Department and Operational Risk Committee.

Due to the scale and type of business of Getin Noble Bank S.A., the leading role in operational risk management in the Group is fulfilled by the Bank's Supervisory Board and Management Board. The Management Board is supported by a dedicated committee – Operational Risk Committee, which performs consulting services in the process of operational risk management.

The main, superior role in operational risk management in the Bank is performed by designated employees of an independent operational risk management unit, which is part of the Operational Risk Management Office.

Strategies and processes of operational risk management and scope and types of operational risk reporting and measurement systems

Operational risk management is a process including activities towards identification, measurement, limiting, monitoring and reporting of risk. It includes all processes and systems, with particular emphasis on those connected with performing activities providing clients with financial services.

The Bank manages operational risk in accordance with "Operational risk management strategy" established by the Management Board of the Bank and approved by the Supervisory Board of the Bank:

- including cautious regulations resulting from the banking law and appropriate resolutions and recommendations of banking supervision;
- as well as including characteristics of rules already applied in the Bank as well as being in the development phase and planned in the future.

Existing operational risk measurement and reporting system is supported by appropriate software dedicated to operational risk management.

The operational risk reporting system in the Bank includes reports prepared for internal – management and external – supervisory purposes. The management and supervisory reporting is based on assumptions resulting from the guidelines included in the M Recommendation, supervisory regulations concerning the rules and methods for announcing qualitative and quantitative information on capital adequacy.

Operational risk measurement is performed with use of IT system, supporting the process of operational risk management by calculating:

- required own funds to cover operational risk;
- ratios for the level of Bank's exposure to operational risk, also called the Bank's sensitivity to operational risk;
- aggregated volume of actual losses.

Policies and strategies related to mitigation of operational risk

Depending on the magnitude and profile of operational risk, proper adjusting and preventive activities are applied, which are adequate to the diagnosed risk and ensure the selection and implementation of effective measures to modify the risk. In particular, the following methods are used to protect against operational risk:

- development and implementation of business continuity plans (including contingency plans) to ensure the organization's ability to continue operations at a defined level;
- insurance against the effects of errors or operational events which are not easily predictable and may give rise to significant financial consequences;
- outsourcing of activities.

Moreover, in order to secure all processes requiring transfer of cash, operational risk is eliminated mainly by implementation of the rule of second-hand check.

Key business processes have been described in appropriate documents – Policies and Procedures. The correctness of business operations is subject to permanent monitoring, and reports are submitted directly to the Management Board.

The efficiency of the security measures and methods used by the Bank to mitigate operational risk is monitored by continuous monitoring, collection and analysing of operational events and operational risk profile observations as well as control of qualitative and quantitative changes in operational risk.

3. Compliance risk

Compliance risk is defined as the risk of negative effect due to failure the Group entities to comply with the provisions of the law, internal regulations, adopted standards, including ethical standards. Strategic goal of compliance risk management is:

- creating the image of the Bank and the Group as entities acting in accordance with the law and accepted standards of conduct and in honest, fair and ethical manner;
- mitigating the risk of occurring financial losses or legal sanction risk resulting from breach of regulations and ethical standards;
- building and maintaining positive relationships with other market participants, including shareholders, customers, business partners and market regulators.

The compliance risk management includes risk identification, assessment of the risk profile, risk monitoring, risk mitigation and reporting of risks.

In the process of compliance risk identification Getin Noble Bank S.A. performs current analyses of law provisions in force, cautionary regulations, internal rules and regulations, as well as Banks conduct standards. It also gathers information on the cases of non-conformity and their reasons. Performance of risk assessment allows the Bank to specify the character and the potential range of financial losses, or potential legal sanctions. Monitoring of compliance risk involves the systematic observation and tracking changes of the compliance risk profile, as well as the effectiveness of applied methods of compliance risk reduction. The process of compliance risk control and reduction includes activities to prevent the occurrence of non-compliance and violations, elimination of identified non-compliance incidents and minimize the impact of their occurrence and covers following aspects: preventive (i.e. allowing risk reduction through implementation of procedures and solutions ensuring conformity) and mitigating (i.e. risk management upon identification of compliance and aimed at alleviating the possible negative outcomes of risks). The preventive risk reduction takes place especially due to the implementation and development of new business models, as well as introduction of new products. Reporting includes the identification process results as well as compliance risk assessment, information concerning compliance cases, and the most crucial changes within the regulatory environment. The recipients of reports are the Operating Risk Committee, President of the Management Board, the Management Board and the Supervisory Board of the Bank.

In the process of compliance risk management the Bank takes into account risks resulting from activities performed by entities of the Capital Group.

4. Market risk

Market risk is defined as an uncertainty about whether the interest rates, currency exchange rates or prices of securities and other financial instruments held by the Group will have a value different from that previously assumed, thereby giving rise to unexpected profits or losses from the positions held in these instruments. The objective of assets and liabilities management in the Group is the optimisation of the structure of the statement of financial position and off-balance sheet of the Group entities in order to preserve the adopted relation of profit to the risk undertaken. The main source of currency risk in the Group is items of Getin Noble Bank S.A. Monitoring of the level of risk in the Group is carried out by periodic measurements of risk on a consolidated basis.

4.1. Currency risk

Currency risk is regarded as negative impact of foreign exchange rates change on financial results. The main objective of currency risk management is to manage the structure of foreign currency assets and liabilities as well as off-balance sheet items within the generally accepted prudence norms set forth by the banking law and the adopted internal limits.

Current management of currency risk is within the competence of the Treasury Department, which monitors the level of open currency position resulting from the Bank's activities related in particular to service of the Bank's customers, and deals in cash in the interbank market thus limiting the Bank's exposure to currency risk, as well as in derivatives within the granted limits. The effectiveness of risk management is evaluated on the basis of the level of use of the adopted limits on exposure to risk. Additionally, in order to hedge the currency risk, the Bank applies the cash flow hedge accounting and hedges against changes in cash flows for mortgage loan portfolio denominated in CHF and EUR with separated portfolio explicitly determined CIRS float-to-fixed CHF/PLN and EUR/PLN hedging transactions and cash flow hedge of PLN deposits portfolio with separated from real CIRS transactions explicitly determined portfolio of IRS fixed-to-float hedging transactions.

Supervision of compliance with limits and prudential norms is performed by the Assets and Liabilities Committee of the Bank. The calculation of the Bank's exposure to currency risk and the calculation of the capital requirement to cover the risk is made daily and reported to the Management Board within management reports.

The capital requirement related to currency risk is calculated as 8% of total currency position in absolute terms, if total currency position exceeds 2% of the Bank's own funds. If total currency position does not exceed 2% of the own funds, the capital requirement for foreign exchange risk is zero. The analysis of the Bank's exposure to currency risk is made through:

- analysis of foreign exchange position in relation to own funds,
- measurement of the Value of Risk (VaR),
- stress tests.

These calculations are performed in System Analysis of Market and Liquidity Risk (SARRP).

Sensitivity analysis for currency risk

Getin Noble Bank S.A. prepares on a daily basis sensitivity analysis for the currency risk in the Bank and quarterly analysis of the sensitivity of the Group's currency risk.

VAR (1D, 99.9%)	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Currency risk	805	428

VaR consists of test, with 99.9% probability, of maximal amount of loss on foreign exchange position, which the Bank/ Group may incur in one day, assuming normal market conditions. However, this measurement does not express absolute maximal loss on which the Bank/ Group is exposed. VaR is the measure describing the risk level in particular moment in time, reflecting position in particular moment, which may not reflect the Bank's/ Group's position risk in another moment.

As at 31 December 2016 the share of total currency position (sum of long positions or net short positions in individual currencies – depending on which of these sums is higher) in the regulatory own funds of the Group amounted to 0.65% (0.54% as at 31 December 2015).

During the reporting period, the currency risk of the Group was on the level which did not require maintaining capital for its coverage.

The Market Risk and Valuation Office submits monthly reports to the Assets and Liabilities Committee on the currency risk management, including the Bank's positions in the individual currencies and compliance with the limits set for open currency positions. Information about the level of the Group's currency risk is reported on a quarterly basis.

The tables below show the currency exposure of the Group as at 31 December 2016 and 2015, by individual classes of assets, liabilities and off-balance sheet liabilities:

31.12.2016	CURRENCY							Total
	PLN PLN thousand	EUR PLN thousand	CHF PLN thousand	USD PLN thousand	GBP PLN thousand	JPY PLN thousand	Other PLN thousand	PLN thousand
Cash and balances with the Central Bank	2,142,650	970,423	8,329	25,853	4,940	-	-	**3,152,195**
Amounts due from banks and financial institutions	230,083	925,775	5,276	4,702	3,935	3,628	4,806	**1,178,205**
Loans and advances to customers	32,494,879	985,693	12,801,731	64,729	2	318,758	1	**46,665,793**
Other assets	14,107,321	1,210,542	10,323	192,761	3	3	-	**15,520,953**
Total assets	**48,974,933**	**4,092,433**	**12,825,659**	**288,045**	**8,880**	**322,389**	**4,807**	**66,517,146**
Amounts due to banks and financial institutions	2,591,614	3,732	64	17	-	-	-	**2,595,427**
Amounts due to customers	49,861,087	1,865,218	246,778	1,029,950	34,244	310	3,541	**53,041,128**
Other liabilities	5,760,889	3,942	204	1,053	25	-	42	**5,766,155**
Total liabilities	**58,213,590**	**1,872,892**	**247,046**	**1,031,020**	**34,269**	**310**	**3,583**	**61,402,710**
Total equity	**5,114,436**	**-**	**-**	**-**	**-**	**-**	**-**	**5,114,436**
Total liabilities and equity	**63,328,026**	**1,872,892**	**247,046**	**1,031,020**	**34,269**	**310**	**3,583**	**66,517,146**
NET EXPOSURE	**(14,353,093)**	**2,219,541**	**12,578,613**	**(742,975)**	**(25,389)**	**322,079**	**1,224**	**-**
OFF-BALANCE SHEET ITEMS								
Assets	17,618,653	1,022,624	2,224,191	1,230,389	28,483	73,021	2,265	**22,199,626**
Liabilities	4,839,310	3,225,725	14,790,420	484,508	1,959	387,926	7,742	**23,737,590**
GAP	**(1,573,750)**	**16,440**	**12,384**	**2,906**	**1,135**	**7,174**	**(4,253)**	**(1,537,964)**

31.12.2015	CURRENCY							Total
	PLN	EUR	CHF	USD	GBP	JPY	Other	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Cash and balances with the Central Bank	2,133,103	556,720	9,242	21,952	3,455	-	-	**2,724,472**
Amounts due from banks and financial institutions	413,535	1,846,786	9,373	15,532	5,685	440	3,565	**2,294,916**
Loans and advances to customers	34,470,113	1,181,396	13,207,157	62,664	1	303,683	-	**49,225,014**
Other assets	16,489,001	15,277	7,485	300	4	-	-	**16,512,067**
Total assets	**53,505,752**	**3,600,179**	**13,233,257**	**100,448**	**9,145**	**304,123**	**3,565**	**70,756,469**
Amounts due to banks and financial institutions	2,384,131	843,543	591,237	9,901	-	-	-	**3,828,812**
Amounts due to customers	52,930,385	1,582,820	179,845	1,004,501	26,412	204	2,054	**55,726,221**
Other liabilities	6,029,446	6,667	296	653	190	207	130	**6,037,589**
Total liabilities	**61,343,962**	**2,433,030**	**771,378**	**1,015,055**	**26,602**	**411**	**2,184**	**65,592,622**
Total equity	**5,163,847**	-	-	-	-	-	-	**5,163,847**
Total liabilities and equity	**66,507,809**	**2,433,030**	**771,378**	**1,015,055**	**26,602**	**411**	**2,184**	**70,756,469**
NET EXPOSURE	**(13,002,057)**	**1,167,149**	**12,461,879**	**(914,607)**	**(17,457)**	**303,712**	**1,381**	**-**
OFF-BALANCE SHEET ITEMS								
Assets	15,947,566	2,092,816	481,234	2,534,422	21,640	11,553	1,255	**21,090,486**
Liabilities	4,317,656	3,235,166	12,938,139	1,616,093	6,900	317,898	3,955	**22,435,807**
GAP	**(1,372,147)**	**24,799**	**4,974**	**3,722**	**(2,717)**	**(2,633)**	**(1,319)**	**(1,345,321)**

4.2. Interest rate risk

Interest rate risk is defined as the risk of a decline in the expected interest income due to changes in market interest rates as well as risk of change in values of opened balance sheet and off-balance sheet positions sensitive to market interest rates changes. The Group conducts activities aiming to decrease the influence of the adverse changes on financial result. The interest rate risk is managed by the Management Board of Getin Noble Bank S.A., which receives and analyses monthly reports concerning this risk on a global basis and weekly information regarding the level of risk exposure for trading portfolio.

Interest rate risk management consists in minimizing the risk of negative impact of changes in market interest rates on the Group's financial standing by establishing and ensuring compliance with the limits set for acceptable interest rate risk, conducting periodic analyses examining the level of interest rate risk and the sensitivity of the profit and loss account to changes in interest rates and entering into transactions limiting exposure to risk (derivatives, sale/ purchase of securities with a fixed coupon). The effectiveness of risk management is evaluated on the basis of the level of use of the adopted limits on exposure to risk.

The Bank complies with EBA guidelines on the management of interest rate risk arising from non-trading activities published on 5 October 2015.

Monitoring of interest rate risk is conducted, among others, through:

- analysis of assets and liabilities and off-balance sheet items sensitive to changes in interest rates by currency and repricing dates,
- analysis of basis risk, profitability curve risk and customer option risk,
- testing sensitivity of the financial result to interest rate (the EaR method),
- analysis of value at risk of the Group's portfolio related to market valuation (VaR),
- stress tests showing the susceptibility of the Bank to losses in case of unfavourable market conditions or in case the key assumptions of the Bank become invalid,
- analysis of the level and influence on the Bank interest margin.

These calculations of revaluation gap, value at risk (VaR) and EaR measure for the Bank are performed in System Analysis of Market and Liquidity Risk (SARRP).

Sensitivity analysis for interest rate risk

Sensitivity analysis for interest rate risk is made daily for the exposure of the Bank and quarterly for the exposure of the Group:

	31.12.2016		31.12.2015	
	EaR (+/- 25 bps) PLN thousand	VAR (1D, 99.9%) PLN thousand	EaR (+/- 25 bps) PLN thousand	VAR (1D, 99.9%) PLN thousand
Interest rate risk	14,094	20,404	20,399	13,132

EaR means the potential change of the interest result of the Group (sensitivity of profit or loss) for the next 12 months in the case of change in the interest rates by 25 basis points (parallel shift of yield curve).

VaR consists in examining, with 99.9% probability, the value of the maximum loss that the Bank/ Group may incur on one day on the valuation of the portfolio, assuming normal market conditions. However, this value does not present the total absolute maximum loss on which the Group is exposed. VaR is the measure describing the risk level in particular moment in time, reflecting position in particular moment, which may not reflect the Group's position risk in other moment.

In order to complete the information about the possible loss of Getin Noble Bank S.A. due to unfavourable changes in interest rates, the Bank conducts also quarterly stress tests by doing simulation of the impact of making fundamental changes in market interest rates and in the structure and balances of assets, liabilities and off-balance sheet items on the level of the Bank's interest rate risk in terms of net interest income and valuation of the portfolio of receivables/ liabilities sensitive to interest rate risk.

The Bank tests the changes in the structure of assets and liabilities by taking into account the risk of the client options (increased level of early repayments of loans with fixed interest rates or increased level of early termination of deposits – depending on the direction of the exposure), potential changes in the Bank's income and changes in the economic value of the portfolio assuming a "shocking" changes of interest rates, for the revised structure of the portfolio. For assumptions about interest rates, the Bank adopts the following options:

- +/- 200 basis points (so-called supervisory standard shock),
- parallel shift of yield curve,
- different nature of the yield curve changes.

The table below shows assets and liabilities and off-balance sheet items of the Group classified as of 31 December 2016 and 2015 in accordance to the criterion of the interest rate exposure. The carrying amount of financial instruments with fixed interest has been split into division to groups of instruments held to maturity date of these instruments. The carrying amount of instruments with variable interest rate is presented according to contractual dates of repricing.

The Group measuring its interest rate risk exposure considers the impact of the assumptions for deposits with undefined maturity date, i.e. deposits which contractual maturity is short but real maturity long ('sediment' is kept on these accounts) and the sensitivity on interest rates fluctuations of those deposits is very limited – in practice these are positions with an administered interest rate, i.e. managed by the Group. The maturity/ revaluation date of such items is subject to modelling in accordance with the rules adopted by the Group. Other assets and liabilities (including accrued interest, other non-interest bearing assets and liabilities) are presented as non-interest bearing assets/liabilities.

31.12.2016	up to 1 month PLN thousand	over 1 month to 3 months PLN thousand	over 3 months to 1 year PLN thousand	over 1 year to 5 years PLN thousand	over 5 years PLN thousand	non-interest bearing assets/ liabilities PLN thousand	Total PLN thousand
BALANCE SHEET ITEMS							
Cash and balances with the Central Bank	2,972,721	-	-	-	-	179,474	**3,152,195**
Amounts due from banks and financial institutions	1,178,205	-	-	-	-	-	**1,178,205**
Loans and advances to customers	25,124,607	19,774,017	1,392,271	302,505	72,393	-	**46,665,793**
Financial assets held for trading and at fair value through profit or loss	-	-	-	-	-	184,938	**184,938**
Financial instruments: available-for-sale and held-to-maturity	4,748,101	258,769	1,501,339	4,859,643	711,927	129,145	**12,208,924**
Other assets	-	-	-	-	-	3,127,091	**3,127,091**
Total assets	**34,023,634**	**20,032,786**	**2,893,610**	**5,162,148**	**784,320**	**3,620,648**	**66,517,146**
Amounts due to banks and financial institutions	179,695	2,376,657	39,075	-	-	-	**2,595,427**
Amounts due to customers	20,690,440	12,777,029	13,306,116	5,370,286	897,257	-	**53,041,128**
Debt securities issued	1,427,841	1,175,770	1,199,432	16,550	-	-	**3,819,593**
Other liabilities	-	-	-	-	-	1,946,562	**1,946,562**
Total liabilities	**22,297,976**	**16,329,456**	**14,544,623**	**5,386,836**	**897,257**	**1,946,562**	**61,402,710**
Equity	**-**	**-**	**-**	**-**	**-**	**5,114,436**	**5,114,436**
Total liabilities and equity	**22,297,976**	**16,329,456**	**14,544,623**	**5,386,836**	**897,257**	**7,060,998**	**66,517,146**
BALANCE SHEET GAP	**11,725,658**	**3,703,330**	**(11,651,013)**	**(224,688)**	**(112,937)**	**(3,440,350)**	**-**
OFF-BALANCE SHEET ITEMS							
Interest rate transactions:							
Receivables	4,634,583	8,078,387	1,825,951	1,234,802	153,283	6,272,620	**22,199,626**
Liabilities	5,379,107	9,005,702	1,850,957	1,259,827	46,844	6,195,153	**23,737,590**
OFF-BALANCE SHEET GAP	**(744,524)**	**(927,315)**	**(25,006)**	**(25,025)**	**106,439**	**77,467**	**(1,537,964)**
TOTAL GAP	**10,981,134**	**2,776,015**	**(11,676,019)**	**(249,713)**	**(6,498)**	**(3,362,883)**	**(1,537,964)**

31.12.2015	up to 1 month PLN thousand	over 1 month to 3 months PLN thousand	over 3 months to 1 year PLN thousand	over 1 year to 5 years PLN thousand	over 5 years PLN thousand	non-interest bearing assets/ liabilities PLN thousand	Total PLN thousand
BALANCE SHEET ITEMS							
Cash and balances with the Central Bank	2,554,223	-	-	-	-	170,249	**2,724,472**
Amounts due from banks and financial institutions	2,294,916	-	-	-	-	-	**2,294,916**
Loans and advances to customers	26,897,110	20,686,050	1,368,182	251,601	22,071	-	**49,225,014**
Financial assets held for trading and at fair value through profit or loss	1,019	15,054	-	-	-	168,614	**184,687**
Financial instruments: available-for-sale and held-to-maturity	7,725,152	129,269	1,702,739	1,341,139	1,727,274	69,973	**12,695,546**
Other assets	-	-	-	-	-	3,631,834	**3,631,834**
Total assets	**39,472,420**	**20,830,373**	**3,070,921**	**1,592,740**	**1,749,345**	**4,040,670**	**70,756,469**
Amounts due to banks and financial institutions	228,803	3,600,009	-	-	-	-	**3,828,812**
Amounts due to customers	24,230,161	10,804,436	16,796,477	2,576,492	1,318,655	-	**55,726,221**
Debt securities issued	1,482,453	1,186,043	1,387,857	36,708	-	-	**4,093,061**
Other liabilities	-	-	-	-	-	1,944,528	**1,944,528**
Total liabilities	**25,941,417**	**15,590,488**	**18,184,334**	**2,613,200**	**1,318,655**	**1,944,528**	**65,592,622**
Equity	**-**	**-**	**-**	**-**	**-**	**5,163,847**	**5,163,847**
Total liabilities and equity	**25,941,417**	**15,590,488**	**18,184,334**	**2,613,200**	**1,318,655**	**7,108,375**	**70,756,469**
BALANCE SHEET GAP	**13,531,003**	**5,239,885**	**(15,113,413)**	**(1,020,460)**	**430,690**	**(3,067,705)**	**-**
OFF-BALANCE SHEET ITEMS							
Interest rate transactions:							
Receivables	5,443,131	6,948,839	676,661	861,334	162,486	6,998,035	**21,090,486**
Liabilities	5,988,327	7,795,734	694,234	862,895	48,881	7,045,736	**22,435,807**
OFF-BALANCE SHEET GAP	**(545,196)**	**(846,895)**	**(17,573)**	**(1,561)**	**113,605**	**(47,701)**	**(1,345,321)**
TOTAL GAP	**12,985,807**	**4,392,990**	**(15,130,986)**	**(1,022,021)**	**544,295**	**(3,115,406)**	**(1,345,321)**

5. Liquidity risk

The liquidity is defined as the ability to optimally fulfil current and future obligations. Liquidity risk is defined as risk of not fulfilling these obligations.

The main source of the Group's liquidity risk is Getin Noble Bank S.A. Monitoring the level of risk within the Group is carried out by periodic measurements of risk for the Group on a consolidated basis.

The Bank complies in its activity with the supervisory recommendations, the European Union regulations, laws and regulations to them, orders of the President of the Polish National Bank and prudential regulations and recommendations of the Polish Financial Supervision Authority. The process of liquidity risk management at the Bank, for both the strategic and operational level has been adjusted to the P Recommendation.

The strategy of liquidity risk management is defined in the Strategy of the Bank, and the Bank's approach to risk management is defined in the Policy of liquidity risk management. Both documents were approved by the Supervisory Board.

The objective of liquidity risk management in the Bank is to ensure the settlement of commitments on a daily basis, the ability to maintain liquidity in the short, medium and long term, both in normal conditions and in case of emergency events – both at the Bank level and the market level – restricting access to secured and unsecured funding sources.

Maintaining of current, short-, medium- and long-term liquidity is based on the realization by the Bank of the following objectives:

- maintaining of desired balance sheet structure,
- financing of loans granted by the Bank with own funds and stable sources,
- use of volatile liabilities as a source of financing of easily marketable assets,
- providing quick and easy access to external sources of financing.

Medium- and long-term liquidity risk management lies within the competence of the Management Board, whereas current and short-term liquidity risk management is the responsibility of the Treasury Department. The consulting role in process of liquidity risk management is performed by the Assets and Liabilities Committee, which monitors the level of liquidity risk based on reports prepared by the Market Risk and Valuation Office.

The Bank's regulations cover also aspects of the management of intraday liquidity.

The following analyses are used to perform an assessment of liquidity risk:

- supervisory liquidity norms,
- LCR (Liquidity coverage ratio) and NSFR (Net stable funding ratio) ratios,
- level of liquid assets,
- gap analysis, i.e. an analysis of the mismatch between the maturities of assets and liabilities, which covers all balance sheet items by maturity, under contractual and real-terms scenarios,
- analysis of liquidity ratios within specific time horizons by maturity, under contractual and real-terms scenarios,
- selected balance sheet ratios,
- stability of funding sources,
- stress tests.

Calculations of supervisory liquidity norms and liquidity gap are carried out in the Market Risk and Liquidity Analysis System (SARRP). The gap ratios, level of liquid assets, selected balance sheet ratios and the level of use of liquidity limits (including compliance with liquidity norms and LCR ratio) are monitored on a daily basis and reported to the Management Board of the Bank.

To ensure the required level of liquidity, the Bank creates the structure of assets and liabilities in line with the accepted internal limits and the recommendations of NBP and KNF, for this purpose the Bank:

- maintains liquidity reserves in safe and liquid financial assets,
- has a possibility of using the additional sources of financing such as lombard loan and technical loan with the National Bank of Poland,
- has the ability to use the received liquidity lines,
- is operationally ready to apply to the NBP for refinancing loan,
- a stable level of core deposits and equity are the main sources of financing of Bank's lending activities.

The effectiveness of liquidity risk management (including its hedging) is evaluated on the basis of the level of use of the adopted limits on exposure to risk, including supervisory limits.

The Bank carries out simulations on the strength of the Bank in case of increased cash outflows (stress tests). The analyses are an important element in the process of asset and liability management. The Bank has a procedure to be followed in a situation threatening the significant increase in the liquidity risk, the so-called "The procedure for the emergency plan for maintaining liquidity in Getin Noble Bank S.A. in crisis situations".

The procedure sets out, among others, signs of deterioration in the liquidity position of the Bank, the so-called warning and crisis states, which is meant to indicate in advance of potential threats. Their monitoring is done on a daily basis. In the event of a situation threatening the liquidity of the Bank, the Management Board and the Assets and Liabilities Committee are informed of the hazard occurrence.

In 2016 the Bank complied with the requirement to maintain a LCR ratio at an adequate level.

During the reporting period the Bank kept supervisory liquidity measures on the level required by the Polish Financial Supervision Authority. Supervisory liquidity measures of Getin Noble Bank S.A. are presented below:

	Supervisory liquidity measures	Minimum value	Value as at 31.12.2016	Value as at 31.12.2015
M1	Short-term liquidity gap (in PLN million)	0.00	5,647	5,351
M2	Short-term liquidity factor	1.00	1.96	1.53
M3	Ratio of coverage of non-liquidity assets with own funds	1.00	2.56	2.22
M4	Coverage ratio of non- liquid assets and limited liquidity assets with own funds and stable external funds	1.00	1.24	1.23

The analysis of undiscounted financial liabilities by contractual maturity dates is presented below:

31.12.2016	Up to 1 month PLN thousand	Over 1 month to 3 months PLN thousand	Over 3 months to 1 year PLN thousand	Over 1 year to 5 years PLN thousand	Over 5 years PLN thousand	Total PLN thousand
Amounts due to banks and financial institutions	73,135	76,970	908,238	1,503,560	100,838	**2,662,741**
Derivative financial instruments	16,369	76,436	271,154	1,298,039	2,441	**1,664,439**
Amounts due to customers	18,939,519	13,840,807	15,379,323	4,389,260	1,434,261	**53,983,170**
Debt securities issued	6,961	21,006	307,524	3,213,699	365,050	**3,914,240**
Total financial liabilities	**19,035,984**	**14,015,219**	**16,866,239**	**10,404,558**	**1,902,590**	**62,224,590**

31.12.2015	Up to 1 month PLN thousand	Over 1 month to 3 months PLN thousand	Over 3 months to 1 year PLN thousand	Over 1 year to 5 years PLN thousand	Over 5 years PLN thousand	Total PLN thousand
Amounts due to banks and financial institutions	122,448	13,691	1,258,013	2,359,829	191,627	**3,945,608**
Derivative financial instruments	59,053	154,109	205,325	1,098,824	3,148	**1,520,459**
Amounts due to customers	21,281,744	11,690,562	18,844,865	2,852,158	2,188,206	**56,857,535**
Debt securities issued	113,012	49,845	96,702	3,665,297	288,882	**4,213,738**
Total financial liabilities	**21,576,257**	**11,908,207**	**20,404,905**	**9,976,108**	**2,671,863**	**66,537,340**

Customer deposits are the main source of financing lending activities of the Bank; the net loans to amounts due to customers ratio amounts to 88%. Retail deposits predominate within the stable sources of funding, while stable deposits of corporate customers are in addition to general base of the stable sources of funding.

6. Risks related to derivatives

Basic types of risk related to derivative financial instruments are market risk and credit risk. At initial recognition derivative financial instruments usually are of zero or low market value. This is due to the fact, that no initial net investment or proportionally low investment is required in comparison to other sorts of agreements with similar reactions on changes of market conditions.

Derivative financial instruments gain positive or negative value with changes of specific interest rate, price of securities, commodity price, exchange rate, credit classification, credit index or other market parameter. As a result, held derivatives become more or less profitable to instruments with the same residual maturity date, which are available on the market.

Credit risk related to derivatives is the potential cost of signing new contract on the original terms, in case that the other part of agreement does not fulfil its obligation. To estimate the potential value of replacement the Bank uses the same methods, as in case of incurred market risk. To control the level of taken credit risk, the Bank evaluates the other part of agreements, using the same methods as those for credit decision making.

The Group entities conclude transactions related to derivative financial instruments with domestic and foreign banks. Transactions are concluded within the credit limits allocated to particular institutions. On the basis of adopted procedure of bank's financial status evaluation, the Group entities determine the limits of maximal exposure for banks. The percentage limits of particular types of transactions are determined within these limits.

7. Hedge accounting

In the Group only Getin Noble Bank S.A. applies the hedge accounting and hedges against changes in cash flows for mortgage loan portfolio denominated in CHF and EUR with separated portfolio explicitly determined CIRS float-to-fixed CHF/PLN and EUR/PLN hedging transactions and cash flow hedge of PLN deposits portfolio with separated from real CIRS transactions explicitly determined portfolio of IRS fixed-to-float hedging transactions. During the hedge period the Bank assesses the effectiveness of hedge relationship. The change of fair value of hedging instruments is recognised in revaluation reserve in the amount of effective part of hedge. Ineffective part of hedge is recognised in the income statement.

Effective part recognised in revaluation reserve after the date of redesignation of hedge relationship is subject to gradual reclassification (amortization in profit or loss account), in accordance with the schedule developed by the Bank, until the maturity term of initial portfolio. The value of effective change in fair value of hedging instruments, presented in revaluation reserve as at 31 December 2016, amounts to PLN -94,612 thousand. Cash flows relating to hedged transactions will be realised from 1 January 2017 to 22 November 2021, i.e. to maturity date of the longest CIRS transaction.

The maturity dates of CIRS hedging transactions (in nominal value) as at 31 December 2016 and 2015 are as follows:

	31.12.2016	
	Receivables PLN thousand	Liabilities PLN thousand
Maturity dates of CIRS hedging transactions:		
over 1 month to 3 months	319,596	391,144
over 3 months to 1 year	2,562,105	2,799,764
over 1 year to 5 years	10,511,971	11,811,400
Total CIRS hedging transactions	**13,393,672**	**15,002,308**

	31.12.2015	
	Receivables PLN thousand	Liabilities PLN thousand
Maturity dates of CIRS hedging transactions:		
up to 1 month	370,110	390,348
over 1 month to 3 months	448,800	590,910
over 3 months to 1 year	3,294,016	3,494,687
over 1 year to 5 years	7,136,212	8,154,558
over 5 years	193,865	196,970
Total CIRS hedging transactions	**11,443,003**	**12,827,473**

The fair value of cash flow hedging instruments as at 31 December 2016 and 2015 is presented below. As the fair value of the hedging instrument its carrying value is given.

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
CIRS - positive valuation	2,348	12,424
CIRS - negative valuation	(1,598,926)	(1,450,010)

The change in fair value of cash flow hedge recognised in revaluation reserve is presented below:

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Accumulated comprehensive income at the beginning of the period (gross)	**(131,549)**	**(188,738)**
Gains/(losses) on hedging instrument	(274,881)	(1,455,532)
Amount transferred from other comprehensive income to income statement, of which:	289,625	1,512,721
interest income	(242,979)	(226,968)
gains on foreign exchange	532,604	1,739,689
Accumulated comprehensive income at the end of the period (gross)	**(116,805)**	**(131,549)**
Tax effect	22,194	24,994
Accumulated comprehensive income at the end of the period (net)	**(94,611)**	**(106,555)**
Ineffective cash flow hedges recognised through profit and loss	**(6,736)**	**(17,637)**
Effect on other comprehensive income in the period (gross)	**14,744**	**57,189**
Deferred tax on cash flow hedge	(2,801)	(10,866)
Effect on other comprehensive income in the period (net)	**11,943**	**46,323**

Getin Noble Bank S.A. applies fair value hedge accounting. The Bank uses hedge of fair value of the PLN deposits portfolio based on a fixed rate against changes in fair value due to the risk of changes in a benchmark interest rate WIBOR. Hedging instrument is a part or all of the cash flows arising from IRS transactions concluded by the Bank. The Bank designates hedging relationships based on sensitivity analysis of the fair value of the hedged portfolio of deposits and portfolio of hedging instruments to the risk of changes in a benchmark interest rate WIBOR. This analysis is based on a measure of "BPV" and "duration". The effectiveness of the hedging relationship is measured on a monthly basis.

Fair value of IRS transactions designated as hedging instruments under fair value hedge of PLN fixed-rate deposits against interest rate risk as at 31 December 2016 and 2015 is presented in the following table:

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Fair value of IRS transactions constituting accounting hedges under the fair value hedge of retail customer deposits against interest rate risk	10,552	13,212

During the reporting period, the Bank recognised the following amounts arising from changes in the fair value of the hedging instrument and the hedged item:

	01.01.2016 - 31.12.2016		01.01.2015 - 31.12.2015	
	Of the hedging instrument PLN thousand	Of the hedged item PLN thousand	Of the hedging instrument PLN thousand	Of the hedged item PLN thousand
Gains	-	696	-	1,199
Losses	2,660	-	2,140	-
Total	**2,660**	**696**	**2,140**	**1,199**

Since 1 January to 31 December 2016 the Group recognized amortization of changes in the fair value of the hedged item in the amount of PLN 1,391 thousand.

8. Capital management

The primary objective of capital management strategy in the Getin Noble Bank S.A. Group is to have an adequate level of capital hedging the taken risk. The capital is managed at the level of individual entities of the Group and management control is exercised by the functions of the supervisory boards of these entities.

Getin Noble Bank S.A. adjusts the level of own capital to profile, scale and complexity of risk present in its operations. Within the level of maintained capital and capital adequacy calculation, the Bank applies to applicable legal regulations and its strategic goals. In order to maintain an optimal level and structure of own funds in terms of the preferred capital structure Getin Noble Bank S.A. assumes to have a structure with a predominant share of core capital (Tier 1), which is essential to meet the requirements specified in the *Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements and investment firms*, binding for the Bank since 1 January 2014 (CRR).

In order to maintain an optimal level and structure of own funds the Bank uses available means – retention of net profit and issue of subordinated bonds, thus ensuring the capital adequacy ratio at the required level.

On 22 October 2015 the Polish Financial Supervision Authority announced the banks introducing the additional security buffer increasing requirements for capital ratios by 1.25 percentage points.

The Polish Financial Supervision Authority on the basis of an assessment in accordance with Art. 39 par. 1 of the *Act of 5 August 2015 on macro-prudential oversight of the financial system and crisis management in the financial sector* imposed on Getin Noble Bank S.A. on an individual and consolidated basis a buffer of other systemically important institution in the amount 0.25% of the total risk exposure calculated in accordance with Art. 92 par. 3 of the CRR Regulation.

According to the decision dated 18 October 2016 the Polish Financial Supervision Authority recommended Getin Noble Bank S.A. to maintain an additional capital requirement in order to secure the risk arising from foreign currency mortgage loans to households at the level of 1.87 p.p. above the level of Total capital ratio (TCR). Additional capital requirement should consist of at least 75% of Tier 1 (equivalent of 1.40 p.p.) and of at least 56% of core Tier I capital (equivalent of 1.05 p.p.).

It means that, as at the date of publication of these financial statements, the minimum capital ratios taking into account the additional capital requirement recommended by the Supervision Authority are as follows:

- Tier 1 Capital ratio T1= 11.90%
- Total capital ratio TCR= 15.37%

As at 31 December 2016 the Bank achieved the required level of capital ratios.

The capital ratios reached at the end of 2016 are the highest levels that Getin Noble Bank S.A. had in recent past years.

The level of internal capital intended to cover unexpected losses arising from significant risks present in its operations (Pillar II requirements) is calculated by the Bank based on internal procedure approved by the Management Board and Supervisory Board. Within Pillar II, the Bank applies its own model of the assessment of demand for internal capital, including hedging of capital against additional risks in relation to Pillar I (liquidity risk, result risk, reputation risk, capital risk).

The capital management, in accordance with regulatory requirements is in place also on the subsidiary level in Noble Funds TFI S.A. and Noble Securities S.A.

Noble Securities S.A., as a brokerage house, is obliged to maintain capital requirements in accordance with the Act of 29 July 2005 on financial instrument trading and the CRR Regulation on prudential requirements for credit institutions and investment firms. The company controls financial liquidity and capital adequacy ratios. On a regular basis all significant financial information, including information regarding to financial liquidity and capital adequacy, is submitted to the Supervisory Board of Noble Securities S.A. Information regarding to level of supervised capital is submitted, in form of report to the Polish Financial Supervision Authority. As at 31 December 2016 the company had equity and Tier 1 capital amounting to PLN 68,801 thousand. Statutory minimal registered capital of Noble Securities S.A. amounts to PLN 3,230 thousand. Moreover, as at 31 December 2016 the company has set the total risk exposure in the amount of PLN 397,956 thousand, calculated total capital requirement (requirement due to so-called II Pillar) amounting to PLN 38,372 thousand. As at 31 December 2016 the company had not any additional Tier 1 capital and Tier 2 capital. The level of own funds of Noble Securities S.A. as at 31 December 2016 was higher than internal capital, Tier 1 core capital ratio was higher than 4.5%, Tier 1 capital ratio was higher than 6%, total capital ratio was higher than 8%, which means that the company complied with requirements regarding to capital adequacy.

The control of equity in Noble Funds TFI S.A. is carried out on a current basis based on provisions of the act on investment funds. The amount of minimal equity of TFI depends on the scope of company activities, the level of assets managed, the value of incurred total expenses and the value of variable distribution expenses. As at 31 December 2016 the company had equity amounting to PLN 19,674 thousand, which significantly exceeded the level required by the act on investment funds. As at 31 December 2016 minimal regulatory equity level of TFI amounted to PLN 3,639 thousand.

9. Capital ratio

As at 31 December 2016 and 2015 the capital ratio was calculated in accordance with the *Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements and investment firms* (CRR).

The implementation process of the CRR Regulation to Polish law ended on 1 November 2015 – after the entry into force of amendments to the Banking Act and the new Act on macro-prudential supervision of the financial system and crisis management in the financial system.

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Tier 1 capital	4,967,093	5,054,315
Tier 2 capital	1,363,985	1,472,065
TOTAL OWN FUNDS	**6,331,078**	**6,526,380**
TOTAL CAPITAL REQUIREMENTS	**3,228,666**	**3,643,222**
CAPITAL RATIOS		
Tier 1 capital ratio	12.3%	11.1%
Total capital ratio	15.7%	14.3%

As at 31 December 2016 and 2015 the portfolio of the Group did not contain any receivables that could be qualified as exceeding the concentration limits, therefore the Group estimates the concentration risk to be not significant.

Signatures of the Getin Noble Bank S.A. Management Board Members:

Artur Klimczak *acting President of the Management Board*	Jerzy Pruski *Vice President of the Management Board*
Krzysztof Basiaga *Member of the Management Board*	Marcin Dec *Member of the Management Board*
Karol Karolkiewicz *Member of the Management Board*	Radosław Stefurak *Member of the Management Board*
Maciej Szczechura *Member of the Management Board*	

Signature of the person responsible for the accounting books:

Beata Kisielewska
Director of Accounting Department

Warsaw, 13 March 2017