Financial statements of

GETIN NOBLE BANK S.A.

for the year ended 31 December 2017

with the independent auditor's report

Warsaw, April 2018

Selected financial data

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand	01.01.2017-31.12.2017 EUR thousand	01.01.2016-31.12.2016 (restated) EUR thousand
Net interest income	1,273,523	1,279,647	300,027	292,444
Net fee and commission income	96,746	58,977	22,792	13,478
Gross profit/ (loss)	(709,034)	119,292	(167,040)	27,262
Net profit/ (loss)	(566,732)	92,796	(133,515)	21,207
Total comprehensive income/ (losses) for the period	(477,149)	28,538	(112,411)	6,522
Net cash flows	201,644	418,117	47,505	95,554

	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand	31.12.2017 EUR thousand	31.12.2016 (restated) EUR thousand
Loans and advances to customers	43,643,399	47,410,127	10,463,785	10,716,575
Total assets	60,259,446	66,521,021	14,447,588	15,036,397
Amounts due to customers	48,710,831	53,105,936	11,678,734	12,004,054
Total equity	4,343,958	4,771,107	1,041,492	1,078,460
Tier 1 capital	4,090,529	4,626,444	980,731	1,045,760
Tier 2 capital	1,329,687	1,363,985	318,801	308,315
Total capital ratio	12.4%	15.1%	12.4%	15.1%
Number of shares	901,696,125	883,381,106	901,696,125	883,381,106

The selected financial figures comprising the basic items of the 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 2017, i.e. 1 EUR = 4.1709 PLN and as at 31 December 2016, i.e. 1 EUR = 4.4240 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 2017 and 31 December 2016 (1 EUR = 4.2447 PLN and 1 EUR = 4.3757 PLN respectively).

TABLE OF CONTENTS:

I. FINANCIAL STATEMENTS

1. Income statement

	Note	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
CONTINUED ACTIVITY			
Interest income	II.7	2,589,444	2,859,121
Interest expense	II.7	(1,315,921)	(1,579,474)
Net interest income		**1,273,523**	**1,279,647**
Fee and commission income	II.8	246,909	217,461
Fee and commission expense	II.8	(150,163)	(158,484)
fee and commission income		**96,746**	**58,977**
Dividend income	II.9	42,834	84,945
Result on financial instruments measured at fair value through profit or loss and net foreign exchange result	II.10	19,003	22,961
Result on other financial instruments	II.11	7,325	84,736
Result on investments in subsidiaries, associates and joint ventures	II.12	120,987	209,604
Other operating income	II.13	39,637	36,744
Other operating expense	II.13	(132,434)	(101,150)
Net other operating income and expense		**(92,797)**	**(64,406)**
Administrative expenses	II.14	(840,844)	(807,900)
Net impairment allowances on financial assets and off-balance sheet provisions	II.15	(1,350,425)	(707,611)
Operating profit		**(723,648)**	**160,953**
Share of profits of associates		14,614	(3,388)
Tax on certain financial institutions		-	(38,273)
Profit/ (loss) before tax		**(709,034)**	**119,292**
Income tax	II.16	142,302	(26,496)
Net profit/ (loss)		**(566,732)**	**92,796**

In 2017 and 2016 there were no discontinued operations at the Bank.

2. Statement of comprehensive income

	Note	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Net profit/(loss) for the period		**(566,732)**	**92,796**
Items that may not be reclassified to profit or loss, of which:		**(34)**	**130**
Actuarial gains/ (losses)	II.36	(42)	160
Tax effect related to items that may not be reclassified to profit or loss	II.16	8	(30)
Items that may be reclassified to profit or loss, of which:		**89,617**	**(64,388)**
Valuation of available-for-sale financial assets		73,858	(94,235)
Cash flow hedges	III.7	36,780	14,744
Tax effect related to items that may be reclassified to profit or loss	II.16	(21,021)	15,103
Net other comprehensive income/ (loss)		**89,583**	**(64,258)**
Total comprehensive income/ (loss) for the period		**(477,149)**	**28,538**

3. Statement of financial position

	Note	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand	01.01.2016 (restated) PLN thousand
ASSETS				
Cash and balances with the Central Bank	II.17	3,341,591	3,152,193	2,724,460
Amounts due from banks and financial institutions	II.18	288,019	996,550	2,008,466
Financial assets held for trading	II.19	-	2,411	-
Financial assets measured at fair value through profit or loss	II.20	158,491	171,972	166,817
Derivative financial instruments	II.21	576,403	90,586	159,074
Loans and advances to customers	II.22	43,643,399	47,410,127	50,455,467
Financial assets, of which:	II.23	9,479,077	11,905,768	12,390,902
available-for-sale		7,654,539	11,703,127	12,236,580
held-to-maturity		1,824,538	202,641	154,322
Investments in subsidiaries, associates and joint ventures	II.25	1,086,873	1,053,519	1,031,922
Intangible assets	II.26	235,174	231,382	212,748
Property, plant and equipment	II.27	191,468	180,210	202,371
Investment properties	II.28	386,110	421,262	478,585
Non-current assets held for sale	II.30	15,668	21,604	19,432
Income tax assets, of which:	II.16	452,270	326,356	335,920
receivables relating to current income tax		4,625	-	4,031
deferred tax assets		447,645	326,356	331,889
Other assets	II.31	404,903	557,081	1,235,094
TOTAL ASSETS		60,259,446	66,521,021	71,421,258
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to banks and financial institutions	II.32	1,559,772	2,254,148	3,457,657
Derivative financial instruments	II.21	244,892	1,660,662	1,519,279
Amounts due to customers	II.33	48,710,831	53,105,936	55,812,803
Debt securities issued	II.34	2,671,495	2,604,936	2,829,820
of which subordinated debt		2,655,804	2,428,877	2,124,286
Current income tax liabilities		-	870	-
Other liabilities	II.35	2,708,277	2,103,440	3,037,409
Provisions	II.36	20,221	19,922	21,721
Total liabilities		**55,915,488**	**61,749,914**	**66,678,689**
Equity				
Share capital	II.37	2,461,630	2,411,630	2,650,143
Retained earnings		(121,346)	(105,139)	(104,020)
Net profit/(loss)		(566,732)	92,796	-
Other capital	II.38	2,570,406	2,371,820	2,196,446
Total equity		**4,343,958**	**4,771,107**	**4,742,569**
TOTAL LIABILITIES AND EQUITY		60,259,446	66,521,021	71,421,258

4. Statement of changes in equity

2017	Share capital	Retained earnings	Net profit/ (loss)	Other capital			Total equity
				Reserve capital	Revaluation reserve	Other capital reserves	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 01.01.2017	**2,411,630**	**(12,343)**	**-**	**2,278,568**	**(185,832)**	**279,084**	**4,771,107**
Comprehensive income/ (loss) for the period	-	-	(566,732)	-	89,583	-	**(477,149)**
Increase in share capital	50,000	-	-	-	-		**50,000**
Distribution of profit for the previous year	-	(109,003)	-	109,003	-	-	-
As at 31.12.2017	**2,461,630**	**(121,346)**	**(566,732)**	**2,387,571**	**(96,249)**	**279,084**	**4,343,958**

The Bank increased its share capital by carrying out the private issue of series B ordinary bearer shares for the amount of PLN 50,000,001.87, which were registered by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register on 5 July 2017.

2016 (restated)	Share capital	Retained earnings	Net profit	Other capital			Total equity
				Reserve capital	Revaluation reserve	Other capital reserves	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 01.01.2016	**2,650,143**	**237,111**	**-**	**2,277,449**	**(121,574)**	**40,571**	**5,083,700**
Correction of prior period errors	-	(341,131)	-	-	-	-	**(341,131)**
As at 01.01.2016 after adjustments	**2,650,143**	**(104,020)**	**-**	**2,277,449**	**(121,574)**	**40,571**	**4,742,569**
Comprehensive income for the period	-	-	92,796	-	(64,258)	-	**28,538**
Decrease in share capital	(238,513)	-	-	-	-	238,513	-
Distribution of profit for the previous year	-	(1,119)	-	1,119	-	-	-
As at 31.12.2016	**2,411,630**	**(105,139)**	**92,796**	**2,278,568**	**(185,832)**	**279,084**	**4,771,107**

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. On 21 September 2016, the Court registered the merger of the Bank's shares by combining every 3 ordinary bearer shares with the existing nominal value of PLN 0.91 each into one share with a new nominal value of PLN 2.73, thus the exchange ratio was set as 3:1. The merger of the shares was carried out while maintaining the unchanged amount of the share capital, i.e. PLN 2,411,630,419.38.

5. Statement of cash flows

	Note	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Cash flow from operating activities			
Net profit/ (loss)		(566,732)	92,796
Adjustments:		2,032,679	1,276,070
Amortisation and depreciation	II.14	79,810	75,004
Share of (profits)/ losses of associates		(14,614)	3,388
(Gains)/ losses from investing activities		174,871	(132,468)
Interests and dividends		126,345	77,687
Change in amounts due from banks and financial institutions	II.43	720,777	1,002,300
Change in financial assets held for trading		2,411	(2,411)
Change in financial assets measured at fair value through profit or loss		13,481	(5,155)
Change in derivative financial instruments (assets)	II.43	(501,796)	68,879
Change in loans and advances to customers		3,766,728	3,045,340
Change in available-for-sale financial instruments	II.43	4,108,414	457,122
Change in held to maturity financial instruments	II.43	(1,461,998)	(12,486)
Change in other assets		152,178	678,013
Change in amounts due to banks and financial institutions	II.43	219,944	(553,165)
Change in derivative financial instruments (liabilities)	II.43	(1,370,000)	152,935
Change in amounts due to customers		(4,395,105)	(2,706,867)
Change in debt securities issued	II.43	(4,216)	2,136
Change in other liabilities		604,837	(933,969)
Change in provisions	II.43	265	(1,669)
Income tax		(122,420)	15,194
Income tax paid		(4,364)	(4,760)
Other adjustments		(62,869)	51,022
Net cash flows from operating activities		**1,465,947**	**1,368,866**
Cash flows from investing activities			
Sale of shares in a subordinated entity		2,867	184,525
Sale of intangible assets and property, plant and equipment		72,211	116,395
Sale of investments in financial instruments		5,750	1,400
Dividends received	II.9	42,834	84,945
Interest received		12,402	4,343
Purchase of shares in a subsidiary		(170,003)	(107,651)
Purchase of intangible assets and property, plant and equipment		(82,316)	(147,131)
Purchase of investments in financial instruments		(165,649)	(37,233)
Net cash flows from/ used in investing activities		**(281,904)**	**99,593**
Cash flows from financing activities			
Proceeds from issue of shares		50,000	-
Proceeds from issue of debt securities	II.34	334,000	340,000
Redemption of issued debt securities	II.34	(263,225)	(567,020)
Repayment of loans		(914,320)	(650,344)
Interest paid		(181,581)	(166,975)
Other financial outflows		(7,273)	(6,003)
Net cash flows used in financing activities		**(982,399)**	**(1,050,342)**
Net increase/(decrease) in cash and cash equivalents		201,644	418,117
Cash and cash equivalents at the beginning of the period		3,175,363	2,,757,246
Cash and cash equivalents at the end of the period	**II.43**	**3,377,007**	**3,175,363**

Information on the cash flow used in financing activities is presented in notes II.32 and II.34.

(data in PLN thousand)

II. NOTES TO THE FINANCIAL STATEMENTS

1. General information about the Bank

Getin Noble Bank S.A. (“the Bank”, “the Company”, “the Issuer”“) with its registered office in Warsaw at Przyokopowa 33, has been 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 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 5 July 2017 the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register made an entry of the increase of the Bank's share capital by a private issue of serie B ordinary bearer shares for the amount of PLN 50,000,001.87. New issue shares were acquired by LC Corp B.V.

The share capital of the Bank amounts to PLN 2,461,630 thousand and is divided into 883,381,106 shares of serie A and 18,315,019 shares of serie B with a nominal value of PLN 2.73 each. The Bank’s shares are ordinary bearer shares, each of which gives right to one vote at the Bank’s General Meeting. All shares of the Bank are introduced to public trading on the main market of Warsaw Stock Exchange and are quoted under the abbreviated name of GETINOBLE, labelled with the code PLGETBK00012.

On 26 January 2018 the Management Board of the Bank adopted a resolution on the increase of the Bank's share capital within the authorized capital by private subscription for series C shares. Pursuant to the resolution, the Bank's Management Board decided to increase the share capital from PLN 2,461,630,421.25 to PLN 2,651,630,416.89, i.e. by the amount of PLN 189,999,995.64, by issuing 69,597,068 ordinary bearer series C shares with a nominal value of PLN 2.73 per share.

The ownership structure of significant batches of shares of the parent entity as of the date of these 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.	356,874,554	356,874,554	39.58%	39.58%
Leszek Czarnecki (directly)	88,208,870	88,208,870	9.78%	9.78%
Getin Holding S.A.	66,771,592	66,771,592	7.41%	7.41%
Other shareholders	389,841,109	389,841,109	43.23%	43.23%
Total	**901,696,125**	**901,696,125**	**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 56.93% 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.	356,874,554	356,874,554	39.58%	39.58%
Leszek Czarnecki (directly)	88,208,870	88,208,870	9.78%	9.78%
Getin Holding S.A.	66,771,592	66,771,592	7.41%	7.41%
Other entities	1,403,191	1,403,191	0.16%	0.16%
Total	**513,258,207**	**513,258,207**	**56.93%**	**56.93%**

The main activities of the Company are banking services and the business activities as defined in the Bank's Articles of Association. The Bank operates throughout Poland, and offers its services mainly to individuals, in Polish zloty and in foreign currencies.

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, from traditional bank branches to the latest technological solutions used in the online banking and bank branches of the new generation.

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 related entities: Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A., Brokerage House Noble Securities S.A., 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 services, concierge services, investment fund units and investment fund certificates.

2. Management and Supervisory Board of the Bank

At the date of approval of these 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.	
President of the Management Board	Artur Klimczak
Vice President of the Management Board	Jerzy Pruski
Members of the Management Board	Karol Karolkiewicz
	Maciej Kleczkiewicz
	Marcin Kuksinowicz
	Marcin Romanowski
	Maciej Szczechura

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

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 Bank's Supervisory Board appointed Mr. Jerzy Pruski as Vice President of the Management Board with the effect from 1 February 2017.

On 6 February 2017 Mr. Krzysztof Rosiński resigned from the Bank's Management Board and position of the Vice-President of the Management Board.

On 11 April 2017 the Supervisory Board adopted a resolution appointing the existing Members of the Management Board to perform their functions for a joint three-year term commencing on the date of adoption of the resolution approving the financial statements for 2016 by the Annual General Meeting of the Bank, with the exception of Mr. Marcin Dec, who resigned from standing for a Member of the Management Board for another term of office.

On 30 May 2017 the Polish Financial Supervision Authority approved the appointment of Mr. Artur Klimczak as President of the Management Board of Getin Noble Bank S.A.

On 19 June 2017 Mr. Krzysztof Basiaga resigned from his position as a Member of the Bank's Management Board with effect from 30 September 2017.

On 27 June 2017 the Bank's Supervisory Board appointed Mr. Marcin Romanowski as a Member of the Management Board with effect from 1 October 2017. At the same time, Mr. Radosław Stefurak resigned from his position as a Member of the Management Board with effect from 30 September 2017.

On 7 September 2017 the Bank’s Supervisory Board appointed Mr. Marcin Kuksinowicz as a Member of the Management Board and Mr. Maciej Kleczkiewicz as a Member of the Management Board with effect from 11 September 2017.

On 12 June 2017 the Supervisory Board adopted resolutions appointing Mr. Leszek Czarnecki as the President of the Supervisory Board and the election of Mr. Krzysztof Bielecki as the Vice President of the Supervisory Board.

On 10 October 2017 the Extraordinary General Meeting of the Bank adopted a resolution on appointment Mrs Barbara Bakalarska as a Member of the Supervisory Board for a three-year joint term of office commencing on the day of adoption of the resolution, i.e. from 10 October 2017.

In the 12-month period ended 31 December 2017 and until the date of approval of these financial statements there were no other changes in the composition of the Bank’s Management and Supervisory Board.

3. Approval of the financial statements

These financial statements were approved by the Management Board of the Bank on 23 April 2018.

4. Significant accounting policies

4.1. Statement of compliance

These 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.

The Bank applies ‘carve-out’ to IAS 39 endorsed by the European Commission Regulation as described in these financial statements.

4.2. Basis of preparation of the financial statements

In these 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 accounted for using 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.

Getin Noble Bank S.A. is in the process of implementing of *Plan for a sustainable improvement in profitability* („the Plan", „PPN"), being the recovery program within the meaning of Article 142 of the Banking Law, approved by the Polish Financial Supervision Authority on 23 September 2016.

In the second quarter of 2017, due to higher impairment losses on assets in the first quarter of this year, the Bank started, in agreement with the Polish Financial Supervision Authority, work on updating the PPN. On 30 August the Polish Financial Supervision Authority has accepted the document entitled Plan for a sustainable improvement in profitability of Getin Noble Bank S.A. for 2017-2021. Update of the Recovery Program for 2016-2019 ("Updated PPN"), which is an update of the Bank's recovery program.

The merits of the updated PPN are the improvement in the profitability of the Bank's operations and the successive increase in capital adequacy, allowing for achieving, in the last period covered by the PPN, capital ratios that meet the requirements of the combined buffer (the updated PPN assumes temporary non-compliance with minimum capital requirements).

Introduced in the IV quarter of 2017 regulatory changes related to:

- the entry into force of the Ordinance of the Minister of Development and Finance of 25 May 2017 regarding higher 150% risk weights for exposures secured by mortgages on real estate,
- recommendation of the Polish Financial Supervision Authority of 24 October 2017 in respect of subordinated bonds issued, so that the minimum nominal value of one subordinated bond was at least PLN 400 thousand,

had a negative impact on the Bank's capital adequacy level, as a result of which some of the assumptions taken into account by the Bank in the PPN have changed. Starting from 1 January 2018 the Bank did not meet the minimum required level of the combined capital buffer, and therefore, pursuant to Art. 60 par. 1 of the Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system, the Bank prepared and applied to the KNF for approval of the Capital Protection Plan (POK).

The Plan sets out additional activities in relation to the ones indicated in the PPN that the Bank intends to take to increase its own funds to the level ensuring coverage of the requirements of the combined capital buffer; they are based on two key assumptions consistent with the concept adopted in PPN, i.e.: optimization of current financial results, while minimizing the period of non-compliance with capital requirements and concentration on building a capital base based on the highest quality funds (Tier 1). Thus, the Bank plans to significantly raise capital by issue of shares and AT1 instruments guaranteed by the Main Shareholder, Mr. Leszek Czarnecki in the total amount of about PLN 1 billion. The Bank received from the Main Shareholder a support letter confirming the above plans expressed in the Capital Protection Plan approved by the Management Board and the Supervisory Board on 23 April 2018. The Management Board of the Bank is convinced that a positive decision regarding the acceptance of the POK by the KNF will be taken in the near future. The Capital Protection Plan assumes achieving the minimum levels of the combined capital buffer by the end of 2019. In the opinion of the Bank's Management Board, the assumptions underlying the updated PPN and the Capital Protection Plan are rational and achievable and as at the date of approval of these financial statements there is not any threat to its implementation.

As described in note III.3 of these financial statements, in the reporting period the Bank maintained supervisory liquidity measures at the level required by the Polish Financial Supervision Authority. The table below presents the supervisory liquidity measures of Getin Noble Bank S.A .:

Supervisory liquidity measures		Minimum value	Value as at	
			31.12.2017	31.12.2016
M1	Short-term liquidity gap (in PLN million)	0.00	4,573	5,647
M2	Short-term liquidity factor	1.00	1.68	1.96
M3	Ratio of coverage of non-liquidity assets with own funds	1.00	2.10	2.56
M4	Coverage ratio of non- liquid assets and limited liquidity assets with own funds and stable external funds	1.00	1.21	1.24

In connection with the above, in the opinion of the Bank's Management Board, there is no significant uncertainty as to the Bank's ability to continue as a going concern. These financial statements have been prepared based on the assumption that the Bank would continue its activities in the foreseeable future, i.e. for a period of at least 12 months from the reporting date.

In addition, still having a significant portfolio of foreign currency loans, the Bank is exposed to the potential introduction of statutory regulations related to the restructuring of foreign currency mortgages, which may have a negative impact on the Bank's financial position.

On 13 October 2017 the Polish Parliament started working on a bill prepared by the President amending the law to support borrowers in financial difficulties who have taken out a housing loan. The draft law assumes more attractive conditions of borrowers' support by raising the minimum income enabling applications for support, increasing the support limit and extending the maximum support period and the repayment period, as well as introducing a Restructuring Fund for foreign currency loans. The Fund would allow the voluntary conversion of foreign currency loans into Polish zlotys under conditions agreed with the client – that is, with the redemption of a part of the debt resulting from changes in exchange rates agreed upon with the borrower. The Fund would be financed by banks having portfolios of foreign currency mortgages. The contribution would amount to a maximum of 0.5% of the carrying amount of the loans subject to restructuring and be payable on a quarterly basis. The bill does not indicate how long the Fund would be funded by contributions from banks.

Introducing the amendment of the act in accordance with the submitted bill may increase the burden for the Bank due to participation in the system of support for borrowers in financial difficulty. As at the date of preparation of this financial statement it is not known whether and in what form the bill presented by the President of the Republic of Poland amending the Act on support of borrowers in financial difficulties who have entered into a housing loan will enter into force and therefore the Bank is unable to reliably estimate its potential impact on capital ratios, financial position and results of the Bank.

4.3. Entity entitled to audit financial statements

The entity entitled to audit the financial statements is Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw.

4.4. Identification of the consolidated financial statements

The Bank has also prepared the consolidated financial statements of the Getin Noble Bank S.A. Capital Group for the year ended 31 December 2017, covering Getin Noble Bank S.A. and its subsidiaries and associates – in accordance with the International Financial Reporting Standards as adopted by the European Union, which were approved for publication on 23 April 2018.

In the consolidated financial statements, acquisition of the Bank's subsidiaries, associates and joint ventures is accounted for using the pooling of interests method (entities under common control) or acquisition method (entities not under common control). In these standalone financial statements the investments in subsidiaries and joint ventures are recognized at cost less impairment, while investments in associates are recognized under the equity method.

4.5. Functional and reporting currency

The 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 Bank and the reporting currency of the financial statements.

4.6. Changes in the applied standards and interpretations

Amendments to existing standards applied for the first time in the Bank's financial statements for 2017

The accounting policies adopted in the preparation of the financial statements are consistent with those applied in the preparation of the Bank's financial statements for the year ended 31 December 2016, except for the adoption of amendments to standards applicable for annual periods beginning on or after 1 January 2017, as follows:

- Amendments to IAS 7 *Statement of cash flows* – Disclosure initiative; as adopted by EU on 6 November 2017,
- Amendments to IAS 12 *Income taxes* – Recognition of deferred tax assets for unrealised losses; as adopted by EU on 6 November 2017.

New standards and interpretations published and adopted by the EU, but are not yet effective

Approving these 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),
- IFRS 16 *Leases* – as adopted by EU on 9 November 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 4 *Insurance contracts* – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* – as adopted by EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 15 *Revenue from contracts with customers* – Clarifications to IFRS 15 – as adopted by EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards *Annual Improvements to IFRSs (2014–2016 Cycle)* – as adopted by EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 *Share-based payments* – Classification and Measurement of Share-based Payment Transactions – as adopted by EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 40 *Investment Property* – Transfers of Investment Property – as adopted by EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 9 *Financial instruments* – Prepayment Features with Negative Compensation – as adopted by EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019 roku),
- Interpretation IFRIC 22 *Foreign Currency Transactions and Advance Consideration* – as adopted by EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

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

IFRS 15 Revenue from contracts with customers

The new standard was issued by the International Accounting Standards Board on 28 May 2014, adopted in the European Union on 22 September 2016 and is effective for annual periods beginning on or after 1 January 2018.

IFRS 15 has replaced all existing regulations and interpretations on revenue recognition. The principles provided for in IFRS 15 apply to all contracts with customers resulting in revenues except for: leases within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS *4 Insurance contracts*, financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint arrangements*, IAS 27 *Separate financial statements*, IAS 28 *Investments in associates and joint ventures*.

The core principle of the new standard is the recognition of revenues in such a way as to indicate the transfer of goods or services to customers in an amount that reflects the consideration (i.e. payment) that the Bank expects in exchange for those goods or services.

The main criterion for recognition of revenue is not the moment of transferring the "risk and benefits" in accordance with IAS 18, but the moment of satisfying the performance obligation, which follows the transfer of control. It determines the recognition of revenue in accordance with IFRS 15. However, it is expected that this moment, in most cases, coincides with the transfer of risk and benefits in the meaning of IAS 18.

Any goods or services sold as a bundle that is distinct should be recognized separately. In addition, all discounts and rebates should in principle be allocated to individual elements of the bundle. Where a contract contains elements of variable consideration, it is only included in the transaction price if it is highly probable that its inclusion will not result in a significant revenue reversal in the future. In addition, in accordance with IFRS 15, the costs incurred to obtain and secure a contract with a client must be recognised as an asset and amortised on a systematic basis that is consistent with the pattern of consuming the benefits from the contract.

This core principle is delivered in a five-step model framework:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The Bank has analysed the impact of the implementation of IFRS 15 on the manner of recognising revenues from contracts with clients. The first phase of the project concerned the analysis of the differences between IFRS 15 and the existing rules in the area of revenue recognition. The following areas were considered in terms of potential differences in relation to the implementation of the new standard:

- identification of distinct goods and services under the contract with the client, i.e. the level of aggregation of the elements promised in the contract,
- the method of allocating a consideration under the contract to various goods and services identified under the contract,
- decision: recognition of revenue over time or at a point in time,
- the manner of measuring the degree of performance satisfaction in the case of revenue recognized over time,
- assessment of the time value of money on the basis of contractual provisions,
- impact on the way revenue is recognized in the case of modification of the contract,
- way of taking into account the variable consideration, e.g. contractual penalties in terms of income from the contract,
- capitalization of costs related to the contract.

In the next step, the Bank identified types of generated revenues, which in principle should be recognized in accordance with IFRS 15:

- consideration from contracts in which the Bank acts as an intermediary (sale of investment and insurance products),
- additional consideration paid by billing/ card organizations for marketing and promotional activities,
- revenues from the sale of property, plant and equipment, including properties acquired for debts,
- commissions for loans and borrowings, for credit cards and keeping bank accounts with regard to fees and commissions, which are not part of the effective interest rate,
- revenues from brokerage activities.

The Bank has not identified any material categories of income and expenses whose recognition or presentation would have change as a result of the implementation of IFRS 15.

Due to the fact that the Bank primarily offers financial instruments in the form of loans and borrowings, the revenue from which is recognized on the basis of the effective interest rate – the impact of implementing IFRS 15 will not be significant for a true and fair view of the financial position and result of the Bank.

The Bank estimates that due to the relatively homogeneous nature of the Bank's operating activities, the impact of IFRS 15 on disclosures will not be material. However, it is assumed that the existing disclosures may be modified if their change enables users of the financial statements to become better acquainted with the nature, amount, dates of acquisition and uncertainty related to revenues and cash flows resulting from contracts with customers.

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.

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 Bank'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 Bank changes its business model for managing the financial assets. In this case, the Bank reclassifies all financial assets affected.

The Bank 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 the income statement.

The classification of derivative instruments did not change after the entry into force of IFRS 9, they are still valued at fair value through profit or loss.

The Bank carried out an analysis of financial assets in terms of meeting the conditions of the cash flow characteristics test and assigning them to an appropriate business model for the proper classification of financial instruments in accordance with IFRS 9. The changes in the classification and measurement of financial instruments include the following assets:

- Loans and advances to customers – a portfolio of stock loans which contractual cash flows do not merely constitute repayments of principal and interest on unpaid capital were classified as at fair value through profit or loss. Other loans and advances to customers are maintained in order to obtain cash flows under the contract and meet the SPPI criteria, therefore they are still measured at amortized cost.
- The Bank assessed the business model for corporate bonds that, according to IAS 39, were classified as available for sale and measured at fair value through other comprehensive income and stated that the portfolio meets the criteria of the business model, which aims to receive cash flows resulting from the contract. Therefore, and meeting the SPPI criteria in accordance with IFRS 9, these corporate bonds were classified as measured at amortized cost.
- Equity instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through other comprehensive income, were irrevocably designated in accordance with IFRS 9 to measure at fair value through other comprehensive income. Changes in the fair value of these financial instruments will not be reclassified to the income statement at the time they are sold.

The application of the new standard has not affected the classification and measurement of financial liabilities, except for derivatives, as IFRS 9 largely retains the current requirements of IAS 39.

Hedge accounting

The Bank used the option provided by IFRS 9 and continues to apply hedge accounting in accordance with IAS 39. Hence, as far as hedge accounting is concerned, the entry into force of IFRS 9 has not affected the Bank'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 replaced the "incurred loss" model in IAS 39. Due to this change, from 2018 the Bank calculates the impairment charges 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 applies 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 has far-reaching consequences for modelling of credit risk parameters and the amount of write-offs. In the new concept, the Loss Identification Period parameter does not apply, nor there is an Incurred But Not Reported category. In accordance with IFRS 9, the impairment write-offs are 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 has also an impact on the recognition of interest income. In particular, the interest income on the assets in stage 1 and 2 is 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 new impairment model based on ECL concept had 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 reconstruction of the asset valuation methodologies, a new definition of default in line with the EBA recommendations and the provisions of IFRS 9 has been implemented, criteria for the transfer of exposures between stages have been developed, new models have been developed to estimate multiannual risk parameters tailored to the Bank's expectations regarding the future macroeconomic situation. In the process of modeling the expected exposure for the moment of entry into default for revolving exposure without defined schedules, models of carrying and off-balance sheet values were implemented based on historical behavioral patterns of repayments and pulls until the default of the exposure. In the field of modeling the transfer between stage 1 and stage 2, a model of a significant increase in credit risk has been developed based on a comparison of the lifetime default probability from the moment of initial exposure recognition with the lifetime default probability from the moment of the assessment. The model takes into account the basic available exposure characteristics from the moment of initial recognition and the moment of current assessment, i.e. scoring/ rating, behavioral data, etc. In addition, the criteria for classifying exposures to stage 2 include criteria such as delay in repayment 30 DPD, or premises related to the deterioration of the borrowers' economic and financial situation. In the area of LGD models, changes to methodologies have been introduced, including changes in the default classification or inclusion of the liftime horizon.

Impact of the introduced changes on the level of write-offs

Due to the introduction of new calculation methods and estimation models compliant with the requirements of the IFRS 9, the level of write-offs in the Bank increased. Increasing the level of write-offs is associated with many factors and materializes at the level of each stage. In particular, growth is offset by such factors as:

- in stage 1 – extension of currently used LIP to 12 months,
- in stage 2 – recognition of exposures with a significant increase in risk and transition from the LIP loss identification period to the lifetime period,
- in stage 3 – modification of currently used LGD estimation methods.

Comparative data

In accordance with the provisions of IFRS 9, the Bank decided not to restate comparable data for prior periods in respect of changes in classification and measurement and impairment, and differences in the carrying amount of assets resulting from the first application of IFRS 9 were recognized as an element of retained earnings in the equity as at 1 January 2018.

The table below presents the impact of the implementation of IFRS 9 on the classification and measurement of financial assets and liabilities as at 1 January 2018.

	Valuation category according to IAS 39	Valuation category according to IFRS 9	Carrying value according to IAS 39 as at 31.12.2017	Change due to		Carrying value according to IFRS 9 as at 01.01.2018
				reclassification	revaluation/ ECL write off	
			PLN thousand	PLN thousand	PLN thousand	PLN thousand
ASSETS						
Amounts due from banks and financial institutions	Amortised cost	Amortised cost	288,019	-	(472)	287,547
Loans and advances to customers	Amortised cost	Amortised cost	43,587,685	166,549	(1,136,631)	42,617,603
Loans and advances to customers	Amortised cost	Fair value through profit or	55,714	(785)	-	54,929
Available-for-sale financial assets	Fair value through other comprehensive income	Fair value through other comprehensive income	7,504,582	-	-	7,504,582
Available-for-sale financial assets	Fair value through other	Amortised cost	143,842	53,397	(8,033)	189,206
Held-to-maturity financial assets	Amortised cost	Amortised cost	1,824,538	-	(12,123)	1,812,415
Total assets			**53,404,380**	**219,161**	**(1,157,259)**	**52,466,282**
LIABILITIES						
Provisions	According to IAS 37	According to IFRS 9	31,643	-	27,008	58,651
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or	244,892	4,264	-	249,156
Total liabilities			**276,535**	**4,264**	**27,008**	**307,807**

The value of other items of financial assets presented in the statement of financial position did not change significantly as a result of the first application of IFRS 9.

Due to the ongoing discussions related to the implementation of the provisions of IFRS 9, especially regarding the classification and measurement of financial instruments containing a multiplier and the lack of market practice in other matters, the final effect of changes may differ from the presented above.

The total impact of the implementation of IFRS 9 on the Bank's equity amounted to PLN -798.5 million, of which the most significant item was the increase in write-offs on financial assets PLN -972.6 million net of tax.

Other changes are related to the reclassification of financial asset portfolios, the recognition of non-performing interest in the carrying amount and the recognition of a counterparty credit risk adjustment (CVA, DVA). The Bank also recognized income tax assets in the amount of PLN 170.8 million.

Impact of IFRS 9 on capital adequacy

On 27 December 2017 the EU issued the Regulation (EU) 2017/2395 of the European Parliament and of the Council amending Regulation (EU) 575/2013 regarding the possible uses of transitional arrangements to mitigate the impact of the introduction of IFRS 9 on own funds and on the treatment of large exposures of certain exposures to public sector entities denominated in the national currency of any Member State.

The Regulation allows the Bank to include in its Tier 1 capital a certain part of the increased provisions for expected credit losses in the transition period, i.e. from 1 January 2018 to 31 December 2022 due to the first application of IFRS 9, if the opening balance as of the day of application reflects a decrease Tier 1 capital as a result of increased provisions for expected credit losses, including a write-off for a lifetime expected losses on financial assets affected by impairment due to credit risk compared to the closing balance of the previous day.

The Management Board of the Bank decided to apply the concessions during the transitional period and, in accordance with the provisions of the Regulation, informed the Polish Financial Supervision Authority. After applying transitional solutions, the Banks's total capital ratio decreased by 5 basis points. In the event of non-application of transitional solutions and taking into account the full impact of the implementation of IFRS 9, the total capital ratio would decrease by 200 basis points.

MSSF 16 Leases

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 of the lessee. The Bank has not yet completed the analysis of the impact of the new standard. The Bank believes that the application of the new standard will have an impact on the recognition, presentation, measurement and disclosure of assets under operating lease and the corresponding liabilities in the financial statements of the Bank as the lessee.

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 23 April 2018 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 17 *Insurance contracts* – effective for annual periods beginning on or after 1 January 2021,
- 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,
- Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments*; effective for annual periods beginning on or after 1 January 2019.
- Amendments to IAS 28 *Investments in associates and joint ventures* – Long-term interests in Associates and Joint Ventures; effective for annual periods beginning on or after 1 January 2019
- *Annual Improvements to IFRS Standards 2015-2017 Cycle*; effective for annual periods beginning on or after 1 January 2019,
- Amendments to IAS 19 *Employee Benefits* – Plan Amendment, Curtailment or Settlement; effective for annual periods beginning on or after 1 January 2019,
- Amendments to *References to the Conceptual Framework in IFRS Standards*; effective for annual periods beginning on or after 1 January 2020.

The dates of entry into force are dates resulting from the content of standards issued by the International Accounting Standards Board. The dates of application of the standards in the EU may differ from the dates of application resulting from the content of the standards and are announced at the time of its endorsement by the EU.

The Bank estimates that the above new standards, amendments to existing standards and new interpretations would not have a material impact on the financial statements if they were applied by the Bank at the balance sheet date.

4.7. Data presentation changes

The comparative data for the 12-month period ended 31 December 2016 presented in these financial statements have been restated to reflect the presentation changes introduced in the current reporting period. The presentation change relates to the transfer of interest income/ expense related to assets/ liabilities subject to a negative interest rate between "Interest Income" and "Interest Expense".

Item in the income statement for the period 01.01.2016 - 31.12.2016	Publicated data PLN thousand	Presentation adjustment PLN thousand	Restated data PLN thousand
Interest income related to:	2,781,148	77,973	2,859,121
amounts due from banks and financial institutions	2,652	4,893	7,545
available-for-sale and held-to-maturity financial assets	236,278	4,398	240,676
derivative financial instruments	226,029	68,682	294,711
Interest expense related to:	1,501,501	77,973	1,579,474
amounts due to banks and financial institutions	40,047	4,893	44,940
available-for-sale and held-to-maturity financial assets	-	4,398	4,398
derivative financial instruments	(54,082)	68,682	14,600
Net interest income	**1,279,647**	**-**	**1,279,647**

The value of "negative" interest recognised in the income statement for 2017 amounts to PLN 87,105 thousand.

The restatement of comparative data in the income statement due to a change in the presentation did not affect the Bank's result for 2016.

4.8. 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 in the proper lines of the income statement. 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.

4.9. Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries and joint ventures, not classified as held-for-sale (or not being part of a group of assets classified as held-for-sale in accordance with IFRS 5) are recognized at cost less impairment allowances. Investments in associates are recognized under the equity method as described in IAS 28.

4.10. Financial assets and liabilities

The Bank 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 Bank 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 Bank'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 Bank 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 Bank 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 Bank'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.

After initial recognition, the Bank 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 Bank 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 Bank 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 Bank 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.

4.11. 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 Bank 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).

4.12. Embedded derivative instruments

Derivative instruments embedded in other financial instruments are treated as separate derivative instruments and valued at fair value, if they meet the definition of a derivative (as stated in point 4.11), economic characteristics and risks related to embedded derivatives are not strictly related to economic characteristics and risks specific for the underlying instrument and the underlying instrument is not measured at fair value through profit or loss. Embedded derivative instruments are measured at fair value, and their changes are recognized in the income statement.

4.13. Hedge accounting

The Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank until the maturity of the original portfolio.

The Bank 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 Bank revokes the designation.

4.14. Impairment of financial assets

At the end of each reporting period, the Bank estimates whether there is any objective evidence indicating the impairment of any financial asset. If such evidence is identified, the Bank 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 Bank 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 Bank, 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 Bank 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),
- 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,
- 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 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank adopts a LIPNONPERF of 12 months.

For the purposes of calculating provisions for off-balance sheet exposures, the Bank 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 Bank estimates the CCF for defined homogeneous product groups on historical data.

Held-to-maturity investments

The Bank 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 Bank 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 Bank'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.

4.15. 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".

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.

4.16. Contingent liabilities

As part of its operations, the Bank 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 Bank;
- 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.

(data in PLN thousand)

4.17. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and recognised on a net basis only if the Bank 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.

4.18. 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. The carrying amount of property, plant and equipment includes expenses related to the improvement and increase in the value of a fixed asset

4.19. Investment properties

Investment property is real estate (land, buildings or parts of them or both items) which the Bank 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 Bank, 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.

The fair value of investment property is estimated on the basis of a valuation carried out by independent valuers or employees of the Bank who are qualified to carry out real estate valuations. The result from the revaluation of the fair value of investment property is recognized in other operating income or expenses.

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 Bank becomes an investment property, the Bank applies rules as for property, plant and equipment up to the date of change in use of property.

4.20. 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.

The following expenditures for development works are capitalized in intangible assets:

- expenditure on services used in the creation of an intangible asset,
- expenditure on employee benefits directly related to the creation of a given asset.

Expenditures incurred on intangible assets generated internally, with the exception of expenditures for development projects, are recognized as costs of the period in which they have been incurred.

The Bank 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 Bank 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 the Bank 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.

4.21. 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. This condition can only be met when the occurrence of the sale transaction is highly probable and the asset is available for immediate sale in its present condition. The classification of an asset as held for sale assumes the intention of the Bank's management to make a sale transaction within one year from the date of its classification as held for sale.

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 Bank 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 Bank 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.

4.22. Impairment of non-financial tangible fixed assets

The carrying amount of particular assets is tested for impairment periodically. If the Bank 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.

4.23. Cash and cash equivalents

The Bank 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.

4.24. 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 Bank 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".

4.25. Employee benefits

In accordance with the Polish Labour Code and the Remuneration Policies, the Bank'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 Bank 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.

Pursuant to the provisions contained in the Remuneration Policy, the Remuneration Rules and the Bonus Rules, a bonus may be granted to Bank employees.

An employee may be covered by the bonus system if it has been provided for a given organizational unit of the Bank or for a given position. The subjective scope of each bonus regulation is determined each time in the regulation itself. The rules for rewarding managers are specified in the Policy of variable remuneration components or in the bonus rules of a given unit.

4.26. Provisions

A provision is recognised when the Bank 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 Bank creates provisions included in liabilities in line “Provisions” for:

a) retirement severance pay

The Bank 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) off-balance sheet commitments

The Bank creates a provision for contingent liabilities related to financing that are subject to the risk of impairment. If as at the balance sheet date, there are objective evidence of impairment of assets in respect of contingent liabilities, the Bank creates a provision equal to the difference between the statistically estimated part of the off-balance sheet exposure (the balance equivalent of the current off-balance sheet items) and the present value of the estimated future cash flows.

c) other

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

4.27. Finance and operating lease

The Bank as a lessee

Finance lease agreements which transfer substantially all the risks and rewards incident to ownership of the leased asset on the Bank 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 Bank as a lessor

The Bank 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 Bank 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.

4.28. 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.

4.29. 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.

4.30. 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 and other capital.

Share capital

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

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.

4.31. 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.

4.32. Revenues

Revenue is recognised in the amount in which it is probable that economic benefits associated with the transaction will flow to the Bank 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 Bank 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 Bank under the contract for the asset or liability, excluding the potential future credit losses.

The method of amortising interest coupons, commissions/ fees and certain external costs related to financial instruments (using the effective interest rate method or in a linear manner) depends on the nature of the given instrument. In the case of financial instruments with fixed cash flow schedules, the effective interest rate method is applied.

However, the method of recognizing the amounts of commissions/ fees accounted for in the financial result as interest or commission income, and the need to settle them over time, rather than the possibility of recognizing them in the financial result at one time, depends on the economic nature of the commission/fee.

Fees/ commissions amortised with the effective interest rate method include 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 Bank'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 settled using the effective interest rate method are recognized by the Bank 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 Bank 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 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 5.1 of these financial statements.

As a result of the assessment of a direct link between an insurance product and a financial instrument, the Bank 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 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. 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 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 product.

The Bank 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.

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

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.

4.33. Other operating income and expense

Other operating income and expense comprises income and expenses not related directly to the banking activities of the Bank. 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 Bank recognises also a gain on bargain purchase from the business combinations in accordance with IFRS 3.

4.34. 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.

4.35. Income tax

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 Bank 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.

4.36. Earnings per share

Earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares in a given reporting period. Disclosures required by IAS 33 have been presented on the basis of consolidated data in the consolidated financial statements only.

5. Significant values based on professional judgement and estimates

5.1. Professional judgement

In the process of applying the accounting policies to the issues listed below, the most important, apart from the accounting estimates, was the professional judgment of the management.

Commissions for insurance

The Bank 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 Bank 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. The Bank considers as revenue recognized upfront up to 30% of bancassurance income related to loans. The remaining part of revenues is recognized over time by the economic duration of the loan agreement at amortized cost. 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 Bank 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 agreements

The Bank classifies an agreement as operating or financial lease based on an assessment of the extent to which the risks and rewards of ownership of a leased asset lie with the lessor and the lessee. This assessment is based on the economic content 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank adopts a LIPNONPERF of 12 months.

5.2. Uncertainty of estimates

While preparing financial statements in accordance with IFRS, the Bank 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 Bank'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 Bank, 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 areas for which the Bank has made estimates include:

Impairment of loans and advances to customers

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

Derivatives, financial assets and financial 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 property

The Bank makes estimates of the fair value of investment property. The estimate reflects market conditions as at the valuation date and is based on current real estate valuations.

Impairment of other tangible fixed assets

At the end of each reporting period the Bank 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 Bank may receive in respect of any asset and other factors. While estimating the fair value less costs to sell, the Bank 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 Bank 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 Bank 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 Bank'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

Component of deferred tax asset has been estimated and recognized 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 the following factors are considered, i.e.:

- 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 Bank 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.

5.3. Changes in estimates

In the current reporting period, the Bank has not changed the areas for which it has made estimates.

6. Correction of prior period errors

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

In the period 2014-2016, i.e. from the moment when the market valuation/ fair value of the investment held in the affiliate Open Finance S.A. as a result of the decrease of the company's share price on the Warsaw Stock Exchange in 2014 by 84% (from PLN 16.48 per share to PLN 2.56 per share) was significantly lower than the net carrying value of the investment, the Bank verified on each balance sheet date whether there was any impairment of the investment in the associate in accordance with IAS 36 by comparing its carrying amount with the utility value of the investment estimated on the basis of the financial plans of the Open Finance S.A. Capital Group. Cash flows from the projected financial results of the Open Finance S.A. Capital Group were increased by the estimates of the financial effects of the identified areas of synergy of the operations of the associated entity with Getin Noble Bank S.A., and then, after discounting, they were included in the determination of the recoverable amount of the investment in the associate.

The applied approach assumed that the significant difference between the fair value and the balance sheet value does not have a permanent character and the financial results achieved by the Open Finance S.A. Group will be close to the plans.

In previous periods, the Bank incorrectly assessed the probability of financial forecasts being the basis for the impairment test. This is also indicated by the persistence of the low market valuation of Open Finance S.A. and the lack of implementation of the planned financial results of the Open Finance Group. As a result, a retrospective adjustment was made to the principles of determining value in use, assuming that the more appropriate method of calculating the value in use of an investment is the percentage of the Bank's share in consolidated net assets included in the consolidated financial statements of the Open Finance S.A. Capital Group, adjusted for goodwill and the trademark of Home Broker S.A. due to the unification of the accounting principles of the associated entity and Getin Noble Bank S.A. (in detail, this adjustment was described in the Getin Noble Bank S.A. financial statements for 2011). The Bank has re-assessed the investment in Open Finance S.A. in terms of impairment at the end of previous periods and corrected the error and retrospectively restated the opening balances of assets and equity in the earliest period presented, as the error was made in periods prior to the earliest period presented in these financial statements.

Test for impairment of goodwill recognised upon the acquisition of Bank Przemysłowy S.A.

Goodwill was recognised upon the acquisition of Bank Przemysłowy S.A. in Łódź in 2004. In accordance with IAS 36 the Bank performed annually an impairment test with respect to the goodwill – regardless whether the impairment triggers existed. The recoverable amount was estimated based on the value in use of the cash-generating units (CGU) which were assigned to goodwill. The value in use of the CGU was 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 was 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.

The forecasts of future cash flows were 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, and forecasted statement of financial position and income statement for the period covered by forecast from the Bank's plans approved by the Management Board and Supervisory Board of Getin Noble Bank S.A., as well as the assumptions contained in the Bank's budgets for subsequent years.

In 2017, during the verification of the prepared impairment test in relation to goodwill, an error was diagnosed consisting in the failure to include in the model of allocation on GCU side costs not directly attributed to the CGU (so-called general management costs and fees for BFG). Therefore, the Bank recalculated the goodwill model at the end of previous periods and adjusted the error and retrospectively restated the opening balances of assets and equity in the earliest period presented, as the error was made in periods prior to the earliest period presented in these financial statements.

Impairment loss on significant credit exposure

In its loan portfolio the Bank has a significant exposure related to the syndicated loan granted for the refinancing of the construction loan and financing of the net investment expenses related to the implementation of the project – construction of a shopping center. In 2016 the Bank when testing it for impairment, incorrectly interpreted events related to emerging problems in the project implementation (exceeding the planned construction costs, delays in completion of the investment, the dispute of the borrower with the main contractor).

Assuming that these are not events that could affect the impairment of the exposure, the Bank did not estimate a possible significant reduction in the value of the collateral that actually occurred. This was also confirmed by the value of offers to purchase receivables, which the consortium of banks financing the project received. Considering the above, the Bank determined that the write-off should have been made in 2016 and therefore corrected the error and retrospectively restated the opening balances of assets and equity as at 31 December 2016.

Comparative data for previous periods presented in these financial statements are presented as if the errors of previous periods never took place. Corrections concerning each item of the financial statements affected by the errors described above are disclosed below:

Adjustment 1 – relates to investment in associate Open Finance S.A.

Adjustment 2 – relates to goodwill recognised upon the acquisition of Bank Przemysłowy S.A.

Adjustment 3 – relates to impairment loss on significant loan exposure.

01.01.2016	Published data PLN thousand	Adjustment 1 PLN thousand	Adjustment 2 PLN thousand	Adjusted data PLN thousand
Investments in associates	1,321,746	(289,824)	-	1,031,922
Intangible assets	264,055	-	(51,307)	212,748
Income tax assets, of which:	335,920	-	-	335,920
receivables relating to current income tax	4,031	-	-	4,031
deferred tax assets	331,889	-	-	331,889
Retained earnings	237,111	(289,824)	(51,307)	(104,020)

31.12.2016	Published data PLN thousand	Adjustment 1 PLN thousand	Adjustment 2 PLN thousand	Adjustment 3 PLN thousand	Adjusted data PLN thousand
Loans and advances to customers	47,442,162	-	-	(32,035)	47,410,127
Investments in associates	1,330,961	(277,442)	-	-	1,053,519
Intangible assets	282,689	-	(51,307)	-	231,382
Income tax assets, of which:	322,910	(2,641)	-	6,087	326,356
receivables relating to current income tax	-	-	-	-	-
deferred tax assets	322,910	(2,641)	-	6,087	326,356
Retained earnings	235,992	(289,824)	(51,307)	-	(105,139)
Net profit/ (loss)	109,003	9,741	-	(25,948)	92,796

01.01.2016 – 31.12.2016	Published data PLN thousand	Adjustment 1 PLN thousand	Adjustment 3 PLN thousand	Adjusted data PLN thousand
Net impairment allowances on financial assets and off-balance sheet provisions	(687,958)	12,382	(32,035)	(707,611)
Income tax	(29,942)	(2,641)	6,087	(26,496)
Net profit/ (loss)	109,003	9,741	(25,948)	92,796

7. Net interest income

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Interest income related to:		
loans and advances to customers	2,048,625	2,288,468
amounts due from banks and financial institutions	6,062	7,545
available-for-sale and held-to-maturity financial assets	215,623	240,676
derivative financial instruments	293,056	294,711
obligatory reserve	26,078	27,721
Total interest income	**2,589,444**	**2,859,121**
of which:		
interest income from impaired financial assets	214,145	200,658
interest income calculated using the effective interest rate in relation to financial assets not measured at fair value through profit or loss	2,296,388	2,564,410
Interest expense related to:		
amounts due to customers	1,108,184	1,379,102
amounts due to banks and financial institutions	38,501	44,940
available-for-sale and held-to-maturity financial assets	7,213	14,600
derivative financial instruments	7,516	4,398
debt securities issued	154,507	136,434
Total interest expense	**1,315,921**	**1,579,474**
of which:		
interest expense calculated using the effective interest rate in relation to financial liabilities not measured at fair value through profit or loss	1,308,708	1,564,874
Net interest income	**1,273,523**	**1,279,647**

Details regarding the restatement of comparative data due to a change in the presentation of interest income/ expense on assets / liabilities subject to a negative interest rate are presented in note II. 4.7.

8. Net fee and commission income

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Fee and commission income related to:		
loans and advances	20,756	27,913
bank accounts service	33,641	37,063
payment cards and credit cards	39,696	45,805
investment products and asset management	94,883	58,330
insurance products	56,707	46,960
brokerage activities	1,226	1,390
Total fee and commission income	**246,909**	**217,461**
Fee and commission expense related to:		
loans and advances	12,058	8,877
payment cards and credit cards	45,891	46,013
investment and deposit products and asset management	77,893	84,536
insurance products	4,927	9,239
other fee and commission expense	9,394	9,819
Total fee and commission expense	**150,163**	**158,484**
Net fee and commission income	**96,746**	**58,977**

9. Dividend income

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Dividends received:		
from investment in insubsidiaries	38,576	35,511
from investment in joint ventures*	-	38,040
from financial instruments classified as available-for-sale	1,227	5,443
from financial instruments classified as measured at fair value through profit or loss	3,031	5,951
Total dividend income	**42,834**	**84,945**

*Dividend from a joint venture Getin Leasing S.A., which was sold by the Bank in 2016.

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

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Result on financial instruments, of which:	(30,520)	(7,612)
equity securities	(3,390)	(4,935)
derivative instruments	(27,148)	(2,677)
debt securities	18	-
Exchange differences on translation of foreign currency loans	30,848	16,287
Other exchange differences	18,675	14,286
Total result on financial instruments measured at fair value through profit or loss and net foreign exchange result	**19,003**	**22,961**

11. Result on other financial instrument

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Result on financial instruments measured at fair value with changes in other comprehensive income, of which:	7,325	84,736
debt securities	63	17,556
equity securities	7,262	67,180
Total result on other financial instruments	**7,325**	**84,736**

The result on equity securities in 2016 includes the result on sale of shares of Biuro Informacji Kredytowej S.A. in the amount of PLN 48.3 million and the revenue on settlement of the VISA Europe Ltd transaction in the amount of PLN 22.4 million.

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

On 1 June 2017 the registry court registered a merger of Open Finance Towarzystwo Funduszy Inwestycyjnych S.A. and Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. As a result of this transaction, the Bank lost control of the merged entity.

Presented below is the result of the Bank of the loss of control in Noble Funds TFI S.A .:

	PLN thousand
Fair value of residual shares as at the date of loss of control	165,161
Carrying value of the investment in a subsidiary	(44,174)
Profit of the Bank	**120,987**

In 2016 Getin Noble Bank S.A. sold 50.72% shares of its joint venture Getin Leasing S.A. The Bank's profit before tax on this transaction amounted to PLN 165,606 thousand. In 2016 the Bank completed also the sale transaction of 3 packages of shares of its subsidiary Noble Funds TFI S.A. constituting 29.97% of its share capital. The Bank's profit before tax on this transaction amounted to PLN 43,998 thousand.

13. Net other operating income and expense

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Other operating income:		
rental income	6,712	7,571
revenues from sales of products and services	1,395	2,499
recovered legal and debt collection costs	9,051	8,204
reversal of provisions and impairment charges for other assets	2,156	2,516
revenue from bad debts recovered	691	728
gains from the sale of non-financial fixed assets	841	3,230
revenue from sale of receivables	1,705	2
damages, penalties and fines received	781	1,014
revenues from card organisations related to promotional activities	7,239	178
reversal of the unused part of a cost accrual	3,998	2,148
other income	5,068	8,654
Total other operating income	**39,637**	**36,744**

Other operating expense:		
rental costs	3,552	2,849
cost of products and services sold	1,491	1,309
debt collection and monitoring of receivables, including legal costs	50,605	37,095
recognition of provisions and impairment charges for other assets	18,158	7,566
straty ze sprzedaży i likwidacji niefinansowych aktywów trwałych	2,033	2,279
costs related to investment products	550	1,910
costs of promotions and rewards for customers	12,409	16,786
fair value measurement of investment property [1)]	34,605	19,922
damages, penalties and fines paid	1,693	4,688
donations	874	1,034
other expense	6,464	5,712
Total other operating expense	**132,434**	**101,150**
Net other operating income and expense	**(92,797)**	**(64,406)**

14. Administrative expenses

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Employee benefits	367,934	350,621
salaries	311,233	296,311
employment costs and other employee benefits	56,701	54,310
Use of materials and energy	19,276	19,402
External services, of which	236,436	236,048
marketing and advertising	37,408	30,325
IT services	40,454	38,226
lease and rental	95,749	105,529
security and cash processing services	6,753	6,016
telecommunication and postal services	25,431	29,515
legal and advisory services	9,074	6,127
other external services	21,567	20,310
Other taxes and charges	13,854	10,137
Amortisation and depreciation	79,810	75,004
Other expenses	6,242	4,854
Total administrative expenses excluding payments to the Bank Guarantee Fund	**723,552**	**696,066**
Payments to the Bank Guarantee Fund, of which:	117,292	111,834
contribution to the guarantee fund of banks	70,553	70,702
contribution to the resolution fund (former prudential)	46,739	33,446
payment due to bankruptcy of Bank Spółdzielczy in Nadarzyn	-	7,686
Total administrative expenses	**840,844**	**807,900**

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

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Loans and advances to customers, of which:	1,018,387	665,850
corporate	67,879	119,567
car	43,774	31,117
mortgage	563,991	254,103
retail	342,743	261,063
Amounts due from banks	(463)	(476)
Investments in subsidiaries and associates	260,400	42,818
Available-for-sale financial assets	(968)	(1,175)
Other financial assets	73,745	-
Off-balance sheet provisions	(676)	594
Total net impairment allowances on financial assets and off-balance sheet provisions	**1,350,425**	**707,611**

The increase in impairment allowances for loans and advances to customers in 2017 resulted from the performed review and updating of scenarios and values used in the assessment of individually significant exposures with recognized impairment. In 2017 less sales of impaired loans portfolios were made than in previous years.

The item "Other financial assets" includes an allowance for deferred payments for sold debt portfolios for which indications of impairment have been identified.

Change in impairment allowances 01.01.2017- 31.12.2017	Loans and advances to customers PLN thousand	Amounts due from banks PLN thousand	Available-for-sale financial assets PLN thousand	Off-balance sheet provisions PLN thousand	Investment in subsidiaries and associates PLN thousand	Other financial assets PLN thousand	Total PLN thousand
Impairment allowances/ provisions as at beginning of the period	**2,695,188**	**625**	**10,203**	**3,477**	**332,642**	**-**	**3,042,135**
Net change in impairment allowances/ provisions recognised in the income statement	1,018,387	(463)	(968)	(676)	260,400	73,745	**1,350,425**
Utilisation - write-offs	(129,006)	-	-	-	-	-	**(129,006)**
Utilisation - sale of the portfolio	(177,223)	-	-	-	-	-	**(177,223)**
Net other decreases*	(211,130)	-	-	-	-	-	**(211,130)**
Impairment allowances/ provisions as at end of the period	**3,196,216**	**162**	**9,235**	**2,801**	**593,042**	**73,745**	**3,875,201**

* The "net other decreases" item is a result of the Bank's methodology to calculate impairment charges, according to which the interest income adjustment under IAS 39 is recognised as a reclassification adjustment between interest income and net impairment allowances on loan receivables. This item also reflects changes in the valuation of impairment allowances accrued in a foreign currency.

Change in impairment allowances 01.01.2016- 31.12.2016 (restated)	Loans and advances to customers PLN thousand	Amounts due from banks PLN thousand	Available-for-sale financial assets PLN thousand	Off-balance sheet provisions PLN thousand	Investment in subsidiaries and associates PLN thousand	Total PLN thousand
Impairment allowances/ provisions as at beginning of the period	**2,369,423**	**1,101**	**11,378**	**2,883**	**289,824**	**2,674,609**
Net change in impairment allowances/ provisions recognised in the income statement	665,850	(476)	(1,175)	594	42,818	**707,611**
Utilisation - write-offs	(78,465)	-	-	-	-	**(78,465)**
Utilisation - sale of the portfolio	(134,717)	-	-	-	-	**(134,717)**
Net other decreases	(126,903)	-	-	-	-	**(126,903)**
Impairment allowances/ provisions as at end of the period	**2,695,188**	**625**	**10,203**	**3,477**	**332,642**	**3,042,135**

16. 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.

In 2017 the Bank incurred a tax loss of PLN 24,289 thousand.

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Income statement		
Current income tax	-	5,890
Current tax charge	-	5,890
Deferred income tax	(142,302)	20,606
Related to origination and reversal of temporary differences	(138,360)	662
Tax loss from current year	(3,942)	19,944
Income tax in the income statement	**(142,302)**	**26,496**
Statement of comprehensive income		
Current income tax	-	-
Deferred income tax	21,013	(15,073)
Related to origination and reversal of temporary differences, of which:	21,013	(15,073)
related to available-for-sale financial assets	14,033	(17,904)
related to cash flow hedges	6,988	2,801
related to actuarial gains/ losses	(8)	30
Tax charge/(benefit) in the statement of comprehensive income	**21,013**	**(15,073)**
Total main components of tax charge/ (benefit)	**(121,289)**	**11,423**

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Profit/ (loss) before tax	**(709,034)**	**119,292**
Tax calculated at tax rate of 19%	(134,716)	22,665
Impact of permanent differences between profit / (loss) before tax and taxable income, including:	(7,586)	3,831
Impact of entities accounted for with the equity method	(2,777)	644
Impact of non-taxable income (dividends)	(8,138)	(16,140)
Impact of non-deductible expenses (including contribution to the BGF)	25,803	5,211
Impact of impairment allowances for investments in associates	-	288
Tax on certain financial institutions	-	7,272
Sale of receivables	242	2,420
Costs of loan impairment allowances being non-deductible expenses	711	4,217
Impact of settlement of loss of control in a subsidiary, disposal of entities	(22,987)	-
Impact of other permanent differences	(440)	(81)
Total tax charges to profit/ (loss) before tax	**(142,302)**	**26,496**

	As at 01.01.2017	Changes in period		As at 31.12.2017
		Recognised in the income statement	Recognised in other comprehen-sive income	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accrued interest on investment securities and derivative instruments	49,452	(10,220)	-	**39,232**
Accrued interest on loans and amounts due from banks	52,301	(21,102)	-	**31,199**
Fees and commissions paid in advance	85,570	(6,030)	-	**79,540**
Difference between tax and balance sheet amortisation	18,521	2,433	-	**20,954**
Valuation of available-for-sale financial assets	712	-	3,151	**3,863**
Provision for non-tax deductible amortisation of intangible assets	5,467	(390)	-	**5,077**
Other	1,280	-	-	**1,280**
Deferred tax liability	**213,303**	**(35,309)**	**3,151**	**181,145**
Accrued interest on deposits, issue of own securities and derivative instruments	90,023	(12,427)	-	**77,596**
Impairment allowances on equity investments	7,847	49,476	-	**57,323**
Impairment allowances on loans, advances to customers and off-balance sheet liabilities	271,657	64,623	-	**336,280**
Tax loss	100,085	3,942	-	**104,027**
Fees and commissions received in advance	8,009	(705)	-	**7,304**
Provisions for operating costs	13,168	(2,068)	-	**11,100**
Valuation of available-for-sale financial assets	22,097	-	(10,882)	**11,215**
Valuation of cash flow hedge	22,193	-	(6,988)	**15,205**
Other	4,580	4,152	8	**8,740**
Deferred tax assets	**539,659**	**106,993**	**(17,862)**	**628,790**
Net deferred tax assets	**326,356**	**142,302**	**(21,013)**	**447,645**

(restated)	As at 01.01.2016	Changes in period		As at 31.12.2016
		Recognised in the income statement	Recognised in other comprehen-sive income	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accrued interest on investment securities and derivative instruments	41,841	7,611	-	49,452
Accrued interest on loans and amounts due from banks	70,560	(18,259)	-	52,301
Fees and commissions paid in advance	81,197	4,373	-	85,570
Difference between tax and balance sheet amortisation	19,338	(817)	-	18,521
Valuation of available-for-sale financial assets	4,859	-	(4,147)	712
Provision for non-tax deductible amortisation of intangible assets	5,860	(393)	-	5,467
Other	418	862	-	1,280
Deferred tax liability	**224,073**	**(6,623)**	**(4,147)**	**213,303**
Accrued interest on deposits, issue of own securities and derivative instruments	101,234	(11,211)	-	90,023
Impairment allowances on loans, advances to customers and off-balance sheet liabilities	250,437	21,220	-	271,657
Impairment allowances on equity investments	-	7,847	-	7,847
Tax loss	120,029	(19,944)	-	100,085
Fees and commissions received in advance	11,601	(3,592)	-	8,009
Provisions for operating costs	9,843	3,325	-	13,168
Valuation of available-for-sale financial assets	8,339	-	13,758	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	4,014	597	(31)	4,580
Deferred tax assets	**555,962**	**(27,229)**	**10,926**	**539,659**
Net deferred tax assets	**331,889**	**(20,606)**	**15,073**	**326,356**

Deferred tax assets are recognized in the amount expected to be realized through the use of future taxable income estimated on the basis of the following documents: *Strategy for 2016-2018*, *Plan for a sustainable improvement in profitability of Getin Noble Bank S.A. for the years 2017-2021. Update of the Repair Action Program for the years 2016-2019* and the *Capital Protection Plan*, approved by the Bank's Management Board and Supervisory Board. The realization of the deferred tax asset depends on the fulfillment of the assumptions adopted in these documents and the assumptions regarding the moment of impairment losses on loans and advances to customers to become probable.

Law on the value added tax, corporate income tax and social security charges are subject to frequent changes. These frequent changes cause lack of market practice, inconsistent interpretations and established precedents that may apply. Existing regulations also contain ambiguities that cause differences in opinions as to the legal interpretation of tax laws, both between state authorities and state bodies and businesses.

Tax settlements and other areas of activity (for example customs or foreign exchange) may be subject to scrutiny by the authorities that are authorized to impose high penalties and fines, and any additional tax liability resulting from controls must be paid with interest. These conditions make the tax risk in Poland higher than in countries with more mature tax systems. As a consequence, the amounts presented and disclosed in the financial statements may change in the future as a result of post-control decisions by tax authorities.

On 15 July 2016 changes have been made to the Tax Code to take account of the provisions of the General Precautionary Abuse Prevention Clause (GAAR). GAAR is supposed to prevent the creation and use of artificial legal structures created to avoid paying taxes in Poland. GAAR defines a tax evasion as an activity primarily for the purpose of obtaining a tax advantage. According to GAAR, this action does not result in a tax advantage if the method of operation is artificial and has no economic and business justification. Any occurrence of (i) unjustified division of operations, (ii) involvement of intermediaries despite economic or business justification, (iii) mutually supportive or compensating elements, and (iv) other actions with similar effects to those previously mentioned may be treated as a condition of existence of the artificial activities subject to GAAR. New regulations will require much greater judgment when assessing the tax implications of individual transactions.

The GAAR clause should apply to transactions made after it enters into force and to transactions that were made before the entry into force of the GAAR, but for which, after the date of entry into force of the clause, benefits have been or are still being achieved. The implementation of the above provisions will allow Polish tax authorities to challenge the taxpayers' legal arrangements and contracts, such as the restructuring and reorganization of the group.

Getin Noble Bank S.A. identifies the risks inherent in the GAAR clause and takes steps to minimize them.

In December 2016 the Mazowiecki Customs and Tax Office (MUCS) started in Getin Noble Bank S.A. tax proceedings for corporate income tax for 2011. For the time being, MUCS is still reviewing the source documents submitted by the Bank in December 2017, in response to the request for submission of source documents received in November 2017. By a decision of 9 April 2018, MUCS set a new deadline for the end of the inspection proceedings on 20 June 2018.

17. Cash and balances with the Central Bank

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Cash	210,390	179,463
Current account at the Central Bank	3,131,201	2,972,719
Other	-	11
Total cash and balances with the Central Bank	**3,341,591**	**3,152,193**

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.

On 30 January 2018 the Management Board of the National Bank of Poland agreed to release Getin Noble Bank S.A. from the obligation to maintain 55% of the required obligatory reserve from 31 January 2018, not later than until 31 December 2018.

Funds on the obligatory reserve account bear interest of 0.9 of the NBP reference rate. As at 31 December 2017 and 2016 the interest rate was 1.35%. Since 1 January 2018 interest of the funds on the obligatory reserve will amount to 0.5%.

18. Amounts due from banks and financial institutions

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Current accounts	276,066	986,414
Deposits and other receivables	12,115	10,761
Total amounts due from banks and financial institutions	**288,181**	**997,175**
Impairment allowances	(162)	(625)
Total amounts due from banks and financial institutions net	**288,019**	**996,550**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Current accounts and overnight deposits	276,066	986,414
Amounts due with term of maturity:	12,115	10,761
up to 1 month	9,176	10,623
from 1 to 3 months	167	11
from 3 months to 1 year	551	51
from 1 year do 5 years	2,221	76
Total amounts due from banks and financial institutions	**288,181**	**997,175**
Impairment allowances	(162)	(625)
Total amounts due from banks and financial institutions net	**288,019**	**996,550**

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

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Receivables with variable interest rate	278,648	985,875
Receivables with fixed interest rate	9,371	10,675
Total amounts due from banks and financial institutions net	**288,019**	**996,550**

19. Financial assets held for trading

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Rights to shares in other entities, of which:	-	2,411
non-listed	-	2,411
Total assets held for trading	**-**	**2,411**

In 2016 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 2,078,500 rights to shares were were purchased in order to sell them in the near term and classified as assets held for trading.

20. Financial assets at fair value through profit or loss

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Shares and stocks in other entities, of which:	158,491	161,882
non- listed	158,491	161,882
Rights to shares in other entities, of which:	-	10,090
non- listed	-	10,090
Total financial assets at fair value through profit or loss	**158,491**	**171,972**

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

In 2016 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 2017 and 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 2017,
- 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.

21. 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:

31.12.2017	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	**3,124,345**	**1,816,675**	-	-	-	**4,941,020**	**244**	**13,192**
Purchase	1,555,637	908,302	-	-	-	**2,463,939**		
Sale	1,568,708	908,373	-	-	-	**2,477,081**		
CIRS	**1,136,475**	**1,883,870**	**3,408,377**	**23,232,540**	-	**29,661,262**	**543,892**	**224,699**
Purchase	571,210	930,244	1,751,185	11,735,499	-	**14,988,138**		
Sale	565,265	953,626	1,657,192	11,497,041	-	**14,673,124**		
Forward	**29,160**	**10,756**	**49,908**	-	-	**89,824**	**1,239**	**677**
Purchase	14,765	5,485	25,162	-	-	**45,412**		
Sale	14,395	5,271	24,746	-	-	**44,412**		
Interest rate transactions								
Interest rate swap (IRS)	-	**44,618**	-	**514,874**	**286,710**	**846,202**	**14,154**	**2,017**
Purchase	-	22,309	-	257,437	143,355	**423,101**		
Sale	-	22,309	-	257,437	143,355	**423,101**		
Options	**7,134**	**10,702**	**64,210**	**1,256,914**		**1,338,960**	**3,691**	**4,307**
Purchase	3,567	5,351	32,105	628,375	-	**669,398**		
Sale	3,567	5,351	32,105	628,539	-	**669,562**		
Other transactions								
Other - share options	-	-	-	**165,658**	-	**165,658**	**13,183**	-
Purchase	-	-	-	165,658	-	**165,658**		
Total derivative financial instruments	**4,297,114**	**3,766,621**	**3,522,495**	**25,169,986**	**286,710**	**37,042,926**	**576,403**	**244,892**

31.12.2016	up to 1 month PLN thousand	from 1 to 3 months PLN thousand	from 3months to 1 year PLN thousand	from 1 year to 5 years PLN thousand	over 5 years PLN thousand	Total PLN thousand	Fair value assets PLN thousand	Fair value 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		
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		
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		
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								
Other – share options	**-**	**-**	**-**	**-**	**165,658**	**165,658**	**39,393**	**-**
Purchase	-	-	-	-	165,658	165,658		
Total derivative financial instruments	**6,565,003**	**2,471,258**	**7,160,981**	**28,770,252**	**565,912**	**45,533,406**	**90,586**	**1,660,662**

22. Loans and advances to customers

	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand
Loans and advances	40,579,657	44,265,909
Purchased receivables	6,172,465	5,753,081
Receivables from debit and credit cards	87,493	86,325
Total loans and advances to customers	**46,839,615**	**50,105,315**
Impairment allowances	(3,196,216)	(2,695,188)
Total loans and advances to customers net	**43,643,399**	**47,410,127**

31.12.2017	Gross value of unimpaired loans	Gross value of impaired loans	Allowances for unimpaired loans	Allowances for impaired loans	Total net
corporate loans	10,755,281	816,738	(7,216)	(371,157)	**11,193,646**
car loans	1,529,389	340,671	(6,208)	(200,810)	**1,663,042**
mortgage loans	23,753,733	4,686,965	(42,550)	(1,819,079)	**26,579,069**
retail loans	3,557,014	1,399,824	(40,093)	(709,103)	**4,207,642**
Total	**39,595,417**	**7,244,198**	**(96,067)**	**(3,100,149)**	**43,643,399**

31.12.2016	Gross value of unimpaired loans	Gross value of impaired loans	Allowances for unimpaired loans	Allowances for impaired loans	Total net
kredyty korporacyjne	10,090,873	824,655	(11,163)	(329,709)	**10,574,656**
kredyty samochodowe	1,807,894	335,144	(7,075)	(180,227)	**1,955,736**
kredyty hipoteczne	27,300,044	4,803,292	(43,903)	(1,440,840)	**30,618,593**
kredyty detaliczne	3,630,551	1,312,862	(39,741)	(642,530)	**4,261,142**
Razem	**42,829,362**	**7,275,953**	**(101,882)**	**(2,593,306)**	**47,410,127**

31.12.2017	Impaired loans by the valuation model					
	Individual valuation model			Group valuation model		
	Gross value PLN thousand	Allowances PLN thousand	Net value PLN thousand	Gross value PLN thousand	Allowances PLN thousand	Net value PLN thousand
corporate loans	326,275	(196,147)	130,128	490,463	(175,010)	315,453
car loans	-	-	-	340,671	(200,810)	139,861
mortgage loans	1,479,144	(689,267)	789,877	3,207,821	(1,129,812)	2,078,009
retail loans	21,365	(9,502)	11,863	1,378,459	(699,601)	678,858
Total	**1,826,784**	**(894,916)**	**931,868**	**5,417,414**	**(2,205,233)**	**3,212,181**

31.12.2016 (restated)	Impaired loans by the valuation model					
	Individual valuation model			Group valuation model		
	Gross value PLN thousand	Allowances PLN thousand	Net value PLN thousand	Gross value PLN thousand	Allowances PLN thousand	Net value PLN thousand
corporate loans	320,690	(168,256)	152,434	503,965	(161,453)	342,512
car loans	-	-	-	335,144	(180,227)	154,917
mortgage loans	1,675,276	(527,358)	1,147,918	3,128,016	(913,482)	2,214,534
retail loans	24,884	(4,912)	19,972	1,287,978	(637,618)	650,360
Total	**2,020,850**	**(700,526)**	**1,320,324**	**5,255,103**	**(1,892,780)**	**3,362,323**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Loans and advances to customers with due date:		
up to 1 month	6,003,406	5,153,234
from 1 month to 3 months	800,521	971,448
from 3 months to 1 year	3,667,826	3,971,115
from 1 year to 5 years	11,475,524	13,043,743
over 5 years	24,892,338	26,965,775
Total loans and advances to customers	**46,839,615**	**50,105,315**
Impairment allowances	(3,196,216)	(2,695,188)
Total loans and advances to customers net	**43,643,399**	**47,410,127**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Loans and advances to customers and finance lease receivables, of which:		
local government units	1,099,057	1,123,034
financial institutions other than banks	1,535,180	1,152,280
non-financial institutions other than natural persons	9,606,355	9,930,294
natural persons	31,402,807	35,204,519
Total loans and advances to customers net	**43,643,399**	**47,410,127**

	31.12.2017	31.12.2016
The value of loans and advances with fixed interest rate (in PLN million)	1,987	936
% of the total loans and advances portfolio	4.55%	1.97%

In 2017 Getin Noble Bank S.A. sold receivables, which consisted of both impaired loans and receivables written- off from the accounts. The nominal value of portfolio covered by the assignment agreements totalled to PLN 347 million.

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).

On 14 July 2017 the Bank entered into significant agreements regarding securitization transactions of the loan portfolio from car loans. The main contract is a Securitization Agreement regarding the sale by the Issuer of receivables from car loans worth PLN 700 million to GNB Auto Plan 2017 sp. z o.o. with its registered office in Warsaw ("SPV") for the price of the outstanding loan principal. The Bank made a professional judgment of the transaction and in accordance with the provisions of IAS 39, it did not remove the securitized assets from the Bank's balance sheet.

Loans in Swiss francs

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

31.12.2017	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	9,039,963	1,247,923	(27,184)	(316,174)	**9,944,528**

	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**

23. Financial assets

Available-for sale financial assets

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Available-for-sale debt securities	**7,520,114**	**11,582,013**
issued by central banks	799,785	824,780
issued by banks and other financial entities	142,878	162,841
issued by non- financial entities	6,075	6,107
issued by the State Treasury	6,571,376	10,588,285
Impairment allowances	**(5,111)**	**(5,051)**
issued by non- financial entities	(5,111)	(5,051)
Total available-for-sale debt securities net	**7,515,003**	**11,576,962**
Available-for-sale equity securities	**143,660**	**131,318**
issued by banks and other financial entities	138,444	76,447
issued by non- financial entities	5,216	54,871
Impairment allowances	**(4,124)**	**(5,153)**
issued by non- financial entities	(4,124)	(5,153)
Total available-for-sale equity securities net	**139,536**	**126,165**
Total available-for-sale financial assets	**7,654,539**	**11,703,127**

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Available-for-sale financial assets at the beginning of the period	**11,703,127**	**12,236,580**
Increases	98,907,436	164,772,493
Decreases (sales and settlements)	(101,581,517)	(165,194,140)
Impairment allowances	969	1,175
Reclassification to held-to-maturity financial instruments	(1,454,067)	-
Fair value changes	78,591	(112,981)
Available-for-sale financial assets at the end of the period	**7,654,539**	**11,703,127**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Available-for-sale financial assets with maturity date:		
up to 1 month	1,276,822	1,750,900
from 1 to 3 months	154,442	1,441
from 3 months to 1 year	2,085,657	1,215,015
from 1 year to 5 years	3,901,724	7,901,033
over 5 years	101,469	713,624
Financial assets of uncertain maturity	143,660	131,318
Total available-for-sale financial assets net	**7,663,774**	**11,713,331**
Impairment allowances	(9,235)	(10,204)
Total available-for-sale financial assets net	**7,654,539**	**11,703,127**

Held-to-maturity financial assets

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Held-to-maturity financial assets	**1,824,538**	**202,641**
issued by local government units	173,233	160,347
issued by the State Treasury	1,461,148	-
issued by banks and other financial entities	150,949	-
issued by non- financial entities	39,208	42,294
Impairment allowances	-	-
Total held-to-maturity financial assets net	**1,824,538**	**202,641**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Held-to-maturity financial assets with maturity date:		
up to 1 month	41	606
from 1 to 3 months	3,106	4,274
from 3 months to 1 year	8,734	3,880
from 1 year to 5 years	1,196,378	60,366
over 5 years	616,279	133,515
Total held-to-maturity financial assets	**1,824,538**	**202,641**
Impairment allowances	-	-
Total held-to-maturity financial assets net	**1,824,538**	**202,641**

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Held-to-maturity financial assets at the beginning of the period	**202,641**	**154,322**
Increases (purchases)	165,649	49,003
Decreases (sales and settlements)	(6,250)	(1,400)
Reclassification from available-for-sale financial instruments	1,454,067	-
Accrued interest and adjustments for amortized cost	8,431	716
Held-to-maturity financial assets at the end of the period	**1,824,538**	**202,641**

In January 2017 Getin Noble Bank S.A. has reclassified treasury bonds with a nominal value of PLN 1.5 billion from the portfolio of available-for-sale instruments to the portfolio of financial instruments held to maturity, on the basis of the internal analysis of investment horizon.

The decision was made in connection with the following circumstances: securities were purchased and held to close the open interest rate gap to which the Bank was previously exposed to; according to the Bank, there has been a change in the outlook for global inflation stemming mainly from the change in inflation outlook in the USA and the Bank intends to maintain the instruments until their maturity date.

	reclassification date PLN thousand	31.12.2017 PLN thousand
Carrying amount of the reclassified financial assets	1,454,067	1,461,149
Fair value of the reclassified financial assets	1,454,067	1,493,902

The effective interest rate as of the reclassification date was from 2.24 pp. up to 2.80 pp., while the expected cash flows to be recovered by the Bank as of the reclassification date was PLN 1,754,161 thousand.

As at the reclassification date the fair value of valuation losses of reclassified securities recognized in other capitals amounted to PLN 46,193 thousand net of tax. Until 31 December 2017 the amount of PLN 6,203 thousand was amortized to the income statement. The remaining amount of the loss from the valuation of reclassified securities recognized in other capitals was PLN 39,990 thousand as at the end of 2017. If the securities were not reclassified, the Bank would recognize a smaller loss in other comprehensive income by PLN 26,530 thousand net of tax.

24. Assets pledged as security

	Carrying amount of assets pledged as security	
	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Available-for-sale financial assets:		
Treasury bonds as collateral for Guaranteed Deposit Protection Funds of the Bank Guarantee Fund	318,818	317,975
Treasury bonds which secure the obligation to pay contributions to the Bank Guarantee Fund	39,643	-
Treasury bonds as collateral for loans received	1,342,390	2,418,574
Treasury bonds as collateral for loans received by subsidiary	409,862	406,500
Treasury bonds as collateral in a repo agreement	126,624	259,953
Treasury bonds as collateral for receivables repayment	119,273	92,601
Total assets pledged as security	**2,356,610**	**3,495,603**

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.

25. Investments in subsidiaries and associates

Getin Noble Bank S.A. holds shares in the following subordinated entities:

31.12.2017	The percentage share / Voting rights held by the Bank	Gross value PLN thousand	Impairment allowances PLN thousand	Carrying value PLN thousand
Noble Concierge sp. z o. o.	100%	469	-	469
Noble Securities S.A.	100%	41,742	-	41,742
Sax Development sp. z o. o.	100%	105,005	-	105,005
BPI Bank Polskich Inwestycji S.A.	100%	57,084	-	57,084
Property Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	100%	374,996	(92,678)	282,318
Debtor Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	100%	425,652	(163,111)	262,541
ProEkspert sp. z o. o.	100%	13	-	13
Open Finance Wierzytelności Detalicznych Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	81.26%	159,566	(45,911)	113,655
Total investments in subsidiaries		**1,164,527**	**(301,700)**	**862,827**
Open Finance S.A.	42.91%	348,120	(291,342)	56,778
Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A.	37.62%	167,268	-	167,268
Total investments in associates		**515,386**	**(291,342)**	**224,046**
Total investments in subordinated entities		**1,679,915**	**(593,042)**	**1,086,873**

31.12.2016 (restated)	The percentage share / Voting rights held by the Bank	Gross value PLN thousand	Impairment allowances PLN thousand	Carrying value PLN thousand
Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A.	70.03%	44,174	-	44,174
Noble Concierge sp. z o. o.	100%	469	-	469
Noble Securities S.A.	100%	41,742	-	41,742
Sax Development sp. z o. o.	100%	105,005	-	105,005
BPI Bank Polskich Inwestycji S.A.	100%	57,084	-	57,084
Property Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	100%	374,997	(19,700)	355,297
Debtor Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	100%	425,652	(21,600)	404,052
ProEkspert sp. z o. o.	100%	13	-	13
ProEkspert sp. z o. o. sp.k.	100%	13	-	13
Total investments in subsidiaries		**1,049,149**	**(41,300)**	**1,007,849**
Open Finance S.A.	42.15%	337,012	(291,342)	45,670
Total investments in associates		**337,012**	**(291,342)**	**45,670**
Total investments in subordinated entities		**1,386,161**	**(332,642)**	**1,053,519**

As at 31 December 2017 and 2016 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.

All subsidiaries are consolidated using the full method, associates are valued with the equity method in the Consolidated financial statements of the Getin Noble Bank S.A. Capital Group.

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 (restated) PLN thousand
Investments in associates at the beginning of the period	**45,670**	**57,288**
Initial value of the investment in Noble Funds TFI S.A.	165,161	-
Acquisition of shares in Open Finance S.A.	10,435	-
Share of profit/ (loss) of Open Finance S.A.*	673	(10,100)
Share of profit of Noble Funds TFI S.A.	6,334	-
Distributions received from an investee	(4,227)	-
Impairment allowance	-	(1,518)
Investments in associates at the end of the period	**224,046**	**45,670**

* Share of profit of associates included in the 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 associates. The amounts shown come from the audited consolidated financial statements of the Open Finance S.A. Capital Group and the unaudited financial statements of Noble Funds TFI S.A., both prepared in accordance with IFRS.

Open Finance S.A. Capital Group	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Non-current assets	553,816	550,966
Current assets	66,754	80,581
Current liabilities	124,560	121,636
Non-current liabilities	126,805	122,296

Open Finance S.A. Capital Group	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Sales revenues	351,655	317,831
Net profit/ (loss) *	(18,173)	(23,941)
Total comprehensive income/ (loss) *	(18,173)	(23,941)

* Attributable to equity holders of the parent

The fair value of the investment of Getin Noble Bank S.A. in Open Finance S.A., for which there are published price quotations amounted to PLN 43.1 million as at 31 December 2017.

Noble Funds TFI S.A.	31.12.2017 PLN thousand
Non-current assets	7,185
Current assets	65,405
Current liabilities	5,435
Non-current liabilities	117

Noble Funds TFI S.A.	01.06.2017-31.12.2017 PLN thousand
Sales revenues	110,186
Net profit	17,041
Total comprehensive income	17,041

Acquisition of investment certificates of Open Finance Wierzytelności Detalicznych NSFIZ

In 2017 Getin Noble Bank S.A. acquired 1,572,668 investment certificates of Open Finance Wierzytelności Detalicznych Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty, giving 81.3% of voting rights at the Fund Investors' Meeting, for the total purchase price of PLN 159.6 million.

Acquisition of shares in Open Finance S.A.

Due to the fact that the increase of the share capital of Open Finance S.A. through the issue of serie E shares issued pursuant to the resolution of the Extraordinary General Meeting of the company dated 29 August 2016 did not take place, in the first half of 2017 the company conducted a public offering of serie E shares and private subscription of serie F shares.

On the basis of the share subscription agreement entered into by Getin Noble Bank S.A. with Open Finance S.A. and in execution of the preliminary agreement, the Bank accepted the offer to subscribe for 8,698,635 serie F shares of the company under private subscription. The total issue price of serie F shares offered to the Bank by the company amounted to PLN 10,090.4 thousand and was paid on 28 April this year. In addition, Getin Noble Bank S.A. purchased 297,147 serie E shares at an issue price of PLN 1.16, which were paid on 31 May 2017. Transactions were concluded outside the regulated market.

On 30 June 2017 the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register, issued a decision to register the share capital increase of Open Finance S.A. At present, after the registration of shares, the Bank holds 42.91% of the share capital of the company after its increase and 42.91% of the total number of votes.

Loss of control of Noble Funds TFI S.A.

On 1 June 2017 the registry court registered a merger of Open Finance Towarzystwo Funduszy Inwestycyjnych S.A. (OF TFI, acquire) and Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. (NF TFI, acquirer). As a result of this transaction and corporate changes made in NF TFI after the merger, GNB lost control of NF TFI.

Loss of control of Noble Funds TFI S.A. in the financial statements of the Bank has been recognised as at the date of registration of the merger of Open Finance TFI S.A. and Noble Funds TFI S.A., i.e. on 1 June 2017. As a result of the merger, the Bank's share in the company's share capital fell to 37.62%, and due to maintaining a significant influence, the investment in associate accounted for with the equity method were recognised in the financial statements.

As of 1 June 2017 the carrying amount of the investment in Noble Funds TFI S.A. was derecognised from the financial statements of Getin Noble Bank S.A., the investment retained in the former subsidiary was recognized at fair value, and the resulting difference was recognised as profit in the income statement. The fair value of the investment representing 37.62% share of Noble Funds TFI S.A. was determined on the basis of independent valuation of the merged company made by the external entity as of the merger date. The valuation of the shares held did not include minority interest discount due to the fact that the Bank retained a significant influence in Noble Funds TFI S.A. allowing it to participate in financial and operating policy decisions. The current shareholding structure of the company after the merger and the fact that none of the shareholders control the company has been also taken into account here.

Until the end of May 2017 Noble Funds TFI S.A. was a subsidiary valued at cost, and from 1 June 2017 it is accounted for with the equity method.

The accounting settlement of the acquisition of the associate was not completed by the end of 2017, and the values of items presented in note II.12 are temporary.

Test for impairment of an investment in subsidiaries

In accordance with IAS 36, to determine whether impairment of an investment in a subsidiary is recognized its carrying amount is compared to its recoverable amount i.e. higher of fair value less costs to sell and value in use.

Impairment of Property FIZAN

Assets of the Property Fund are shares in special purpose entities engaged in real estate transactions. The value in use of the investment in subsidiary Property FIZAN was estimated based on the projected financial results of the Fund on the basis of the business plan prepared by the management of the fund taking into account the negative scenario of the sales deterioration and the drop in prices of investment properties in relation to the assumptions in the business plan. Cash flow projections were developed for the nine-year planning period taking into account the nature of the entity, and the residual value was assumed in the form of discounted carrying value of properties unsold during the period of the projection.

The financial projections for each set of cash flows were discounted at weighted average cost of capital of the Fund considering additional charge for the risk of non-compliance with the financial projections - the discount rate was set at 8.36%.

Each scenario was assigned equal weight – the average value of cash flows discounted according to the above assumptions was increased by the balance of non-operating cash on accounts of special purpose entities and Property FIZAN.

The recoverable amount of an investment in a subsidiary calculated in the manner described above was compared with its carrying value. As a result of test for impairment carried out in 2017 impairment on the investment in a subsidiary Property was recognized and impairment allowance in the amount of PLN 73 million was made.

Reducing the discount rate by 1 percentage point would increase the designated recoverable amount by PLN 15 million; increasing the discount rate by 1 percentage point would reduce the designated recoverable amount by PLN 14 million.

Impairment of Debtor NS FIZ

The recoverable amount of the portfolio of receivables designated for sale has been determined at the level of its fair value less costs to sell. To determine the fair value of the portfolio of receivables, the Bank used an impairment model for IAS 39 based on individual assessment of estimated flows from each loan, using data on receivables and their collateral as at the valuation date (the group valuation has been waived from the model used so far). As a result of analyzing the documentation of each of the receivables in the portfolio as at 31 December 2017, the carrying amount exceeded over the fair value and an impairment loss of PLN 163.1 million was recognised.

Impairment of Open Finance Wierzytelności Detalicznych NSFIZ

The recoverable amount of the investment in OFWD NSFIZ was determined as the fair value of the investment certificates of the fund corresponding to the fund's net asset value per investment certificate (WANCI) on the last day of the valuation before the balance sheet date. As at 31 December 2017 the carrying amount was exceeded the fair value and an impairment loss of PLN 45.9 million was recognised.

26. Intangible assets

	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand
Patents and licenses	177,020	146,245
Other intangible assets	27,764	34,551
Capital expenditure on intangible assets	30,390	50,586
Total intangible assets	**235,174**	**231,382**

Getin Noble Bank S.A. recognises as at 31 December 2017 an intangible asset in the form of relationships with deposit customers (*Core Deposit Intangible*) in the amount of PLN 27,764 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 2017 is 49 months for the relationships identified in the acquisition of an organised part of a business of DnB Nord Polska S.A. and 52 months for the relationships identified in the acquisition of an organised part of a business of DZ Bank Polska S.A.

2017	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 01.01.2017	**307,213**	**51,307**	**58,951**	**50,586**	**468,057**
Increases, of which:	60,075	-	-	18,130	**78,205**
purchase	22,044	-	-	18,130	**40,174**
transfer of capital expenditures	38,031	-	-	-	**38,031**
Decreases, of which:	(17,903)	-	(144)	(38,326)	**(56,373)**
liquidation and sale	(17,903)	-	(144)	-	**(18,047)**
transfer of capital expenditures	-	-	-	(38,031)	**(38,031)**
other decreases	-	-	-	(295)	**(295)**
Gross value as at 31.12.2017	**349,385**	**51,307**	**58,807**	**30,390**	**489,889**
Amortisation as at 01.01.2017	**144,287**	**-**	**24,400**	**-**	**168,687**
Increases, of which:	29,301	-	6,787	-	36,088
amortisation charge for the period	29,301	-	6,787	-	36,088
Decreases, of which:	(14,827)	-	(144)	-	(14,971)
liquidation and sale	(14,827)	-	(144)	-	(14,971)
Amortisation as at 31.12.2017	**158,761**	**-**	**31,043**	**-**	**189,804**
Impairment allowances as at 01.01.2017	**16,681**	**51,307**	**-**	**-**	**67,988**
Decreases	(3,077)	-	-	-	**(3,077)**
Impairment allowances as at 31.12.2017	**13,60**	**51,307**	**-**	**-**	**64,911**
Carrying value as at 01.01.2017	**146,245**	**-**	**34,551**	**50,586**	**231,382**
Carrying value as at 31.12.2017	**177,020**	**-**	**27,764**	**30,390**	**235,174**

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	**260,701**	**51,307**	**58,951**	**46,642**	**417,601**
Increases, of which:	46,512	-	-	31,090	**77,602**
purchase	20,476	-	-	31,090	**51,566**
transfer of capital expenditures	26,036	-	-	-	**26,036**
Decreases, of which:	-	-	-	(27,146)	**(27,146)**
liquidation and sale	-	-	-	(26,036)	**(26,036)**
transfer of capital expenditures	-	-	-	(1,110)	**(1,110)**
Gross value as at 31.12.2016	**307,213**	**51,307**	**58,951**	**50,586**	**468,057**
Amortisation as at 01.01.2016	**119,251**	**-**	**17,614**	**-**	**136,865**
Increases, of which:	25,036	-	6,786	-	31,822
amortisation charge for the period	25,036	-	6,786	-	31,822
Amortisation as at 31.12.2016	**144,287**	**-**	**24,400**	**-**	**168,687**
Impairment allowances as at 01.01.2016	**16,681**	**51,307**	-	-	**67,988**
Impairment allowances as at 31.12.2016	**16,681**	**51,307**	**-**	**-**	**67,988**
Carrying value as at 01.01.2016	**124,769**	**-**	**41,337**	**46,642**	**212,748**
Carrying value as at 31.12.2016	**146,245**	**-**	**34,551**	**50,586**	**231,382**

27. Property, plant and equipment

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Land and buildings	61,663	68,961
Plant and machinery	112,620	99,801
Vehicles	8,206	328
Other tangible fixed assets, including equipment	8,784	10,192
Assets under construction	195	928
Total property, plant and equipment	**191,468**	**180,210**

2017	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 01.01.2017	**206,326**	**257,903**	**1,552**	**38,175**	**928**	**504,884**
Increases, of which:	6,045	47,090	8,682	2,727	195	**64,739**
purchase	5,510	46,162	8,682	2,727	195	**63,276**
transfer from investment properties	535	-	-	-	-	**535**
transfer from assets under construction	-	928	-	-	-	**928**
Decreases, of which:	(27,164)	(35,212)	(1,319)	(9,084)	(928)	**(73,707)**
liquidation and sale	(25,459)	(26,706)	(1,193)	(9,084)	-	**(62,442)**
transfer to non-current assets held for sale	(1,705)	-	-	-	-	**(1,705)**
transfer from assets under construction	-	-	-	-	(928)	**(928)**
other decreases	**-**	(8,506)	(126)	-	**-**	**(8,632)**
Gross value as at 31.12.2017	**185,207**	**269,781**	**8,915**	**31,818**	**195**	**495,916**
Depreciation as at 01.01.2017	**126,962**	**155,989**	**1,224**	**27,821**	**-**	**311,996**
Increases, of which:	11,058	28,194	429	4,041	-	43,722
depreciation charge for the period	11,058	28,194	429	4,041	-	43,722
Decreases, of which:	(24,350)	(28,340)	(944)	(8,837)	-	(62,471)
liquidation and sale	(24,296)	(25,832)	(820)	(8,837)	-	(59,785)
transfer to non-current assets held for sale	(54)	-	-	-	-	(54)
other decreases	-	(2,508)	(124)	-	-	(2,632)
Depreciation as at 31.12.2017	**113,670**	**155,843**	**709**	**23,025**	**-**	**293,247**
Impairment allowances as at 01.01.2017	**10,403**	**2,113**	**-**	**162**	**-**	**12,678**
Increases	90	-	-	-	-	**90**
Decreases	(619)	(795)	-	(153)	-	**(1,567)**
Impairment allowances as at 31.12.2017	**9,874**	**1,318**	**-**	**9**	**-**	**11,201**
Carrying value as at 01.01.2017	**68,961**	**99,801**	**328**	**10,192**	**928**	**180,210**
Carrying value as at 31.12.2017	**61,663**	**112,620**	**8,206**	**8,784**	**195**	**191,468**

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	**216,210**	**242,871**	**5,823**	**38,304**	**2,399**	**505,607**
Increases, of which:	5,083	19,515	259	131	4	24,992
purchase	406	19,072	259	131	4	19,872
transfer from investment properties	4,677	-	-	-	-	4,677
transfer from assets under construction	-	443	-	-	-	443
Decreases, of which:	(14,967)	(4,483)	(4,530)	(260)	(1,475)	(25,715)
liquidation and sale	(13,970)	(2,701)	(2,784)	(251)	(1,032)	(20,738)
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	**206,326**	**257,903**	**1,552**	**38,175**	**928**	**504,884**
Depreciation as at 01.01.2016	**130,215**	**133,328**	**4,606**	**21,260**	**-**	**289,409**
Increases, of which:	10,475	25,705	213	6,789	-	43,182
depreciation charge for the period	10,475	25,705	213	6,789	-	43,182
Decreases, of which:	(13,728)	(3,044)	(3,595)	(228)	-	(20,595)
liquidation and sale	(13,723)	(2,409)	(1,911)	(219)	-	(18,262)
transfer to non-current assets held for sale	(5)	-	-	-	-	(5)
other decreases	-	(635)	(1,684)	(9)	-	(2,328)
Depreciation as at 31.12.2016	**126,962**	**155,989**	**1,224**	**27,821**	**-**	**311,996**
Impairment allowances as at 01.01.2016	**10,403**	**2,231**	**-**	**162**	**1,031**	**13,827**
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	**75,592**	**107,312**	**1,217**	**16,882**	**1,368**	**202,371**
Carrying value as at 31.12.2016	**68,961**	**99,801**	**328**	**10,192**	**928**	**180,210**

As of 31 December 2017 net value of fixed assets used on the basis of finance lease amounted to PLN 19,553 thousand (PLN 18,030 thousand as at 31 December 2016).

In 2017 and 2016 there were no restrictions of rights concerning legal title of the Bank to fixed assets serving as collateral for liabilities.

In 2017 the value of compensations received from third-parties in respect of impairment or loss of fixed assets, recognized in the income statement amounted to PLN 61 thousand (PLN 103 thousand in 2016).

28. Investment properties

Investment properties are lands without or with buildings and premises being a separate property, which the Bank 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 Bank 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.

Net losses from valuation adjustments for 2017 were recognized in other operating expenses in the income statement.

The fair value of investment properties as at 31 December 2017 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 Bank 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.

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Fair value of investment properties at the beginning of the period	**421,262**	**478,585**
Increases, of which:	71,869	84,009
purchase/ acquisition of property	51,998	81,042
transfer from non-current assets held for sale	19,871	2,429
transfer from property, plant and equipment	-	538
Decreases, of which:	(73,430)	(121,410)
sale of property	(8,679)	(44,339)
transfer to non-current assets held for sale	(64,016)	(66,635)
transfer to property, plant and equipment	(535)	(4,677)
other decreases	(200)	(5,759)
Net loss on fair value adjustments	(33,591)	(19,922)
Fair value of investment properties at the end of the period	**386,110**	**421,262**

In 2017 and 2016 the following amounts of income and expenses related with investment properties were recognised in the income statement:

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Rental income from investment properties	2,709	4,683
Direct operating expenses related to investment properties, which generated rental income in the period	456	568
Direct operating expenses related to investment properties, which did not generate rental income in the period	2,588	2,388

29. Finance and operating lease

Liabilities arising from finance leases

The Bank 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 Bank. In exchange for the acquired rights to use of the leased asset, the Bank 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 Bank has the right to acquire the object of leasing, provided that it has fulfilled all obligations to the lessor. If the Bank 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	
	31.12.2017 PLN thousand	31.12.2016 PLN thousand	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Lease liabilities:	**15,137**	**12,044**	**14,651**	**11,825**
up to 1 year	258	4,705	257	4,677
from 1 year to 5 years	14,879	7,339	14,394	7,148
Future financial burden	(486)	(219)		
Present value of minimum lease payments	**14,651**	**11,825**		

As at 31 December 2017 the net carrying value of fixed assets used under finance leases amounted to PLN 19,553 thousand (PLN 18,030 thousand at 31 December 2016).

Operating lease agreements –the Bank as lessor

The Bank 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.

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Payments due from the balance sheet date:		
up to 1 year	2,656	3,261
from 1 year to 5 years	2,782	5,169
Total future minimum payments arising from irrevocable operating leases	**5,438**	**8,430**

Liabilities arising from operating lease – the Bank as lessee

Operating lease agreements in which the Bank is the lessee, relate to lease of cars and properties used by the Bank in the normal course of business. According to the agreements for the duration of the lease agreement the leased asset is used by the Bank. In exchange for the acquired rights to use of the leased asset, the Bank 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 2017 amounted to PLN 95,538 thousand (PLN 104,091 thousand in 2016).

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Payments due from the balance sheet date:		
up to 1 year	53,274	42,917
from 1year to 5 years	108,787	91,586
over 5 years	2,079	6,252
Total future minimum payments arising from irrevocable operating leases	**164,140**	**140,755**

Future minimum lease payments were calculated for fixed-term contracts only.

30. Non-current assets held for sale

Non-current assets held for sale as at 31 December 2017 and 2016 are properties not used by the Bank, which are expected to be disposed within one year.

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Non-current assets held for sale at the beginning of the period	**21,604**	**19,432**
Increases, of which:	65,577	67,089
transfer from property, plant and equipment	1,561	454
transfer from investment properties	64,016	66,635
Decreases, of which:	(71,513)	(64,917)
transfer to investment properties	(19,871)	(2,429)
fair value adjustment	(1,014)	-
sale/ liquidation	(50,628)	(62,488)
Non-current assets held for sale at the end of the period	**15,668**	**21,604**

31. Other assets

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Receivables from sundry debtors, of which:	479,074	546,837
tax, subsidies and social insurance receivables	320	1,186
payment cards settlements	22,071	15,999
other receivables *	456,683	529,652
Accrued expenses	20,572	25,668
Recourses and guarantee deposits	4,517	3,691
Other assets	502	4,678
Total other assets	**504,665**	**580,874**
Impairment allowances	(99,762)	(23,793)
Total other assets net	**404,903**	**557,081**

* Item „other receivables" as at 31 December 2017 includes receivables from deferred payments, among others for sale of receivables portfolios (PLN 78 million; PLN 125 million as at the end of 2016) and sale of shares (PLN 168 million; PLN 188 million as at the end of 2016).

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Impairment allowances at the beginning of the period	**23,793**	**19,890**
Increases recognised in the income statement	75,497	1,993
Decreases recognised in the income statement	(527)	(185)
Other increases	1,000	2,095
Impairment allowances at the end of the period	**99,763**	**23,793**

32. Amounts due to banks and financial institutions

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Current accounts	85,416	65,884
Deposits of other banks and financial institutions	295,816	79,215
Loans and advances received	1,176,916	2,107,337
Other amounts due to banks	1,624	1,712
Total amounts due to banks and financial institutions	**1,559,772**	**2,254,148**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Amounts due with variable interest rate	1,414,635	2,176,791
Amounts due with fixed interest rate	145,137	77,357
Total amounts due to banks and financial institutions	**1,559,772**	**2,254,148**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Current liabilities	237,720	69,455
Term liabilities with due date:	1,322,052	2,184,693
up to 1 month	140,983	33,385
from 1 month to 3 months	463,756	69,825
from 3 months to 1 year	524,040	881,628
from 1 year to 5 years	107,060	1,102,146
over 5 years	86,213	97,709
Total amounts due to banks and financial institutions	**1,559,772**	**2,254,148**

33. Amounts due to customers

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Amounts due to corporate entities	**7,026,913**	**8,153,801**
current accounts and overnight deposits	2,636,775	2,022,771
term deposits	4,390,138	6,131,030
Amounts due to budgetary entities	**2,304,468**	**2,424,947**
current accounts and overnight deposits	1,347,073	1,455,464
term deposits	957,395	969,483
Amounts due to natural persons	**39,379,450**	**42,527,188**
current accounts and overnight deposits	9,421,844	6,958,360
term deposits	29,957,606	35,568,828
Total amounts due to customers	**48,710,831**	**53,105,936**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Amounts due with variable interest rate	13,682,445,	11,059,533
Amounts due with fixed interest rate	35,028,386	42,046,403
Total amounts due to customers	**48,710,831**	**53,105,936**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Current accounts and overnight deposits	13,405,692	10,436,595
Term liabilities with due date:	35,305,139	42,669,341
up to 1 month	8,090,030	8,537,184
from 1 month to 3 months	11,840,293	13,809,356
from 3 months to 6 months	7,533,723	9,613,761
from 6 months to 1 year	4,803,320	5,623,194
from 1 year to 5 years	2,845,719	4,067,497
over 5 years	192,054	1,018,349
Total amounts due to customers	**48,710,831**	**53,105,936**

34. Debt securities issued

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Debt securities issued, of which:	2,637,029	2,573,020
subordinated bonds	2,621,823	2,397,693
other bonds	15,206	167,311
bank securities	-	8,016
Interest, of which:	34,466	31,916
on subordinated bonds	33,981	31,184
on other bonds	485	701
on bank securities	-	31
Total debt securities issued	**2,671,495**	**2,604,936**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Debt securities issued with maturity date:		
up to 1 month	7,118	5,126
from 1 month to 3 months	420,945	21,049
from 3 months to 1 year	374,662	274,319
from 1 year to 5 years	1,205,414	1,939,392
over 5 years	663,356	365,050
Total debt securities issued	**2,671,495**	**2,604,936**

Change in liabilities due to issue of bonds	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Balance as at the beginning of the period	**2,596,889**	**2,821,050**
- issue of bank bonds	334,000	340,000
- accrued interest/ commission amortisation	148,760	135,955
- redemption of bank bonds	(263,225)	(567,020)
- payment of interest	(144,929)	(133,096)
Balance as at the end of the period	**2,671,495**	**2,596,889**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Amounts due with variable interest rate	2,655,805	2,586,002
Amounts due with fixed interest rate	15,690	18,934
Total debt securities issued	**2,671,495**	**2,604,936**

In 2017 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 PP6-IV	2017-01-31	2024-01-31	42,000	42,000
Getin Noble Bank bonds PP6-V	2017-04-04	2024-04-04	55,000	55,000
Getin Noble Bank bonds PP6-VI	2017-04-27	2024-04-29	62,000	62,000
Getin Noble Bank bonds PP6-VII	2017-05-31	2024-05-31	40,000	40,000
Getin Noble Bank bonds PP6-VIII	2017-06-28	2024-06-28	40,000	40,000
Getin Noble Bank bonds PP6-IX	2017-07-26	2024-07-26	30,000	30,000
Getin Noble Bank bonds PP6-X	2017-08-30	2024-08-30	40,000	40,000
Getin Noble Bank bonds PP6-XI	2017-10-10	2024-10-10	25,000	25,000
Total			**334,000**	**334,000**

Type of redeemed securities	Issue date	Redemption date	Number of securities	Nominal value PLN thousand
Getin Noble Bank bonds SP-I	2015-03-23	2017-03-03	28	28
Getin Noble Bank bonds SP-I	2015-03-23	2017-04-20	356	356
Getin Noble Bank bonds SP-I	2015-03-23	2017-05-02	42	42
Getin Noble Bank bonds SP-I	2015-03-23	2017-06-12	257	257
Getin Noble Bank bonds SP-I	2015-03-23	2017-06-23	229	229
Getin Noble Bank bonds GNB14001	2014-06-30	2017-06-30	6,089	60,890
Getin Noble Bank bonds SP-I	2015-03-23	2017-07-05	95	95
Getin Noble Bank bonds SP-I	2015-03-23	2017-07-19	92	92
Getin Noble Bank bonds B	2011-08-10	2017-08-10	350	35,000
Getin Noble Bank bonds SP-I	2015-03-23	2017-08-18	285	285
Getin Noble Bank bonds C	2011-09-01	2017-09-01	50,000	50,000
Getin Noble Bank bonds D	2011-09-20	2017-09-20	20,000	20,000
Getin Noble Bank bonds SP-I	2015-03-23	2017-10-03	652	652
Getin Noble Bank bonds SP-I	2015-03-23	2017-10-04	17	17
Getin Noble Bank bonds SP-I	2015-03-23	2017-10-10	71	71
Getin Noble Bank bonds 17/10/2017	2011-10-17	2017-10-17	45,000	45,000
Getin Noble Bank bonds SP-I	2015-03-23	2017-10-24	164	164
Getin Noble Bank bonds SP-I	2015-03-23	2017-12-08	47	47
Getin Noble Bank bonds GNB14018	2014-12-19	2017-12-19	5,000	50,000
Total			**128,774**	**263,225**

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, in 2017 and until the date of publication of these financial statements, the Bank redeemed bonds in the amount of PLN 3.03 million (of nominal value). The remaining amount that may be requested for earlier redemption is maximum PLN 14.93 million (of nominal value).

The recommendation published by the KNF on 24 October 2017 to introduce a minimum nominal value of a single subordinated bond issued in the amount of PLN 400 thousand may limit the Bank's ability to continue to carry out subsequent issues of subordinated debt.

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

35. Other liabilities

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Interbank settlements	72,906	58,745
Sundry debtors, of which:	94,842	79,632
statutory liabilities	22,206	24,697
payment cards settlements	1,599	128
other	71,037	54,807
Finance lease liabilities	14,651	11,825
Amounts due to the BFG	35,188	-
Accruals	36,924	30,478
Provision for unused holidays	11,869	-
Deferred income	14,510	13,129
Securitisation liabilities	2,411,070	1,892,127
Other liabilities	16,317	17,504
Total other liabilities	**2,708,277**	**2,103,440**

The increase in securitisation liabilities in 2017 results from the conclusion by the Bank of an agreement regarding the transaction of securing a portfolio of receivables from car loans, according to which the Bank sold receivables from car loans to GNB Auto Plan 2017 sp. z o.o. in Warsaw.

36. Provisions

	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
Provisions as at 01.01.2017	**103**	**4,170**	**12,172**	**3,477**	**19,922**
Recognition/ actualisation	-	15,003	261,	1,326	17,689
Utilisation	(87)	(1,716)	(86)	-	(1,890)
Reversal	(16)	(1,613)	-	(2,449)	(4,078)
Other decreases	-	-	(10,771)*	-	-
Provisions as at 31.12.2017	-	15,844	1,576	2,354	31,643

* In 2017 the Bank changed the presentation of reserves for unused holidays. As at 31 December 2017 the provision was presented as short-term employee benefits under the item "Other liabilities".

	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
Provisions as at 01.01.2016	**-**	**4,477**	**14,361**	**2,883**	**21,721**
Recognition/ actualisation	3,248	1,293	872	6,158	**11,571**
Utilisation	(3,145)	(1,600)	(730)	-	**(5,475)**
Reversal	-	-	(2,331)	(5,564)	**(7,895)**
Provisions as at 31.12.2016	**103**	**4,170**	**12,172**	**3,477**	**19,922**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Provision for retirement and disability benefits	1,576	1,401
Provision for unused holidays	-	10,771
Total provision for employee benefits	**1,576**	**12,172**

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 Bank 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:

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Present value of the obligation at the beginning of the period	**1,401**	**1,334**
Total expense recognised in the income statement, of which::	209	292
current service cost	168	160
interest cost	41	35
Profits of past employment (impact of changes in the rules for payment of benefits)	-	(330)
Costs of past employment (impact of change in retirement age)	-	427
Total expense recognised in the other comprehensive income, of which:	42	(160)
actuarial (gains)/ losses due to ex post adjustments of assumptions	(18)	(86)
actuarial (gains)/ losses due to changes in demographic variables	4	21
actuarial (gains)/ losses due to changes in financial variables	56	(95)
Benefits paid	(76)	(65)
Present value of the obligation at the end of the period	**1,576**	**1,401**
Present value of the short-term obligation	**250**	**273**
Present value of the long-term obligation	**1,326**	**1,128**

The future payments of employee benefits have been discounted with 3.3% 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:

	31.12.2017		31.12.2016	
	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Provision for retirement benefits	1,529	1,626	1,361	1,443

Court proceedings

In 2017 and 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 2017 concerning the Bank's liabilities also did not exceed 10% of own funds of the Bank.

The total value of the subject of the dispute in court proceedings regarding loan agreements indexed in CHF as at 31 December 2017 amounted to PLN 193 million.

In 2017 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 2017 no final decision was made on admitting a case to be heard in a class action). As at the end of 2017 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 2017.

As at 31 December 2017 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 2017 the provision amounted to PLN 15,844 thousand (PLN 4,170 thousand as at 31 December 2016).

In 2017 the Bank created PLN 5 million provision for pending proceedings on annulment of the decision of the President of UOKiK under reference number RKT-61-35/12/SB on the practice infringing collective consumer interests in offering insurance protection as part of group life insurance. By virtue of a decision of the second instance court of 23 January 2018, the Bank was obliged to pay PLN 5 million.

37. Share capital

Share capital of the Bank amounts to PLN 2,461,630 thousand and consists of 883,381,106 shares of serie A and 18,315,019 shares of serie B with nominal value of PLN 2.73 each. The Bank's shares are ordinary bearer shares, each share has the right to 1 vote during the General Meeting of the Bank. All the Bank's shares are admitted to stock exchange trading on the Warsaw Stock Exchange and are listed under the abbreviated name GETINOBLE, marked with the code PLGETBK00012.

On 5 July 2017 the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register made an entry of the increase of the Bank's share capital by a private issue of serie B ordinary bearer shares for the amount of PLN 50,000,001.87. New issue shares were acquired by LC Corp B.V.

38. Other capital

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Reserve capital	2,387,571	2,278,568
Revaluation reserve, of which:	(96,249)	(185,832)
valuation of available-for-sale financial assets	(31,345)	(91,171)
cash flow hedge	(64,820)	(94,611)
actuarial losses	(84)	(50)
Other capital reserves	279,084	279,084
Total other capital	**2,570,406**	**2,371,820**

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Revaluation reserve for available-for-sale financial assets at the beginning of the period	**(91,171)**	**(14,840)**
Increase/ (decrease) due to remeasurement	56,415	(68,831)
Accumulated (profit)/ loss transferred to income statement due to sale/ redemption	3,411	(7,500),
Revaluation reserve for available-for-sale financial assets at the end of the period	**(31,345)**	**(91,171)**

39. Dividends paid and proposed

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

On 9 may 2017 the General Shareholders Meeting of Getin Noble Bank S.A. decided to allocate the Bank's full profit for the year 2016 to increase the reserve capital.

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

On 24 November 2017, the Polish Financial Supervision Authority published the recommendation on 2018 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.

40. Contingent liabilities

The Bank 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 Bank issues guarantees and letters of credit which serve as security in case the Bank's customers will discharge their liabilities towards third parties. The Bank 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 Bank 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.

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Financial contingent liabilities granted	**1,954,096**	**2,131,104**
to financial entities	160,733	346,403
to non-financial entities	1,717,478	1,724,598
to budgetary entities	75,885	60,103
Guarantees granted	**169,036**	**174,556**
to financial entities	4,095	15,143
to non-financial entities	160,477	152,921
to budgetary entities	4,464	6,492
Total contingent liabilities granted	**2,123,132**	**2,305,660**

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Total contingent liabilities received - guarantees	281,680	523,664

41. Fair value of 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 financial 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.

41.1. Financial assets and liabilities that are not presented at fair value in the statement of financial position

The principal methods and assumptions used in estimating the fair value of financial assets and liabilities that in the 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

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:

	31.12.2017		31.12.2016 (restated)	
	Carrying amount PLN thousand	Fair value PLN thousand	Carrying amount PLN thousand	Fair value PLN thousand
ASSETS				
Cash and balances with the Central Bank	3,341,591	3,341,591	3,152,193	3,152,193
Amounts due from banks and financial institutions	288,019	288,019	996,550	996,550
Loans and advances to customers	43,643,399	42,623,087	47,410,127	44,599,635
Held-to-maturity financial assets	1,824,538	1,861,674	202,641	207,193
LIABILITIES				
Amounts due to banks and financial institutions	1,559,772	1,559,772	2,254,148	2,254,148
Amounts due to customers	48,710,831	49,701,360	53,105,936	53,945,910
Debt securities issued	2,671,495	2,518,177	2,604,936	2,441,743

The fair values of financial assets and liabilities meet the conditions for classification to level 3, with the exception of debt securities issued on an active market and included in level 1, and those for which the fair value is close to their carrying amount, and therefore not remeasured.

41.2. Financial assets and liabilities at fair value in the statement of financial position

The Bank 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 Bank classifies available-for-sale debt and equity financial assets for which there exists an active 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 Bank classifies the NBP bills, 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 Bank 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:

31.12.2017	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand	Total PLN thousand
ASSETS				
Financial assets at fair value through profit or loss	-	-	158,491	**158,491**
Derivative financial instruments	-	563,220	13,183	**576,403**
Available-for-sale financial assets	6,684,700	799,785	170,054	**7,654,539**
LIABILITIES				
Derivative financial instruments	-	244,892	-	**244,892**

31.12.2016	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand	Total PLN thousand
ASSETS				
Financial assets held for trading	-	-	2,411	**2,411**
Financial assets at fair value through profit or loss	-	-	171,972	**171,972**
Derivative financial instruments	-	51,193	39,393	**90,586**
Available-for-sale financial assets	10,708,358	824,780	169,989	**11,703,127**
LIABILITIES				
Derivative financial instruments	-	1,660,662	-	**1,660,662**

In 2017 and 2016 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.

Transfers between levels of the fair value hierarchy of financial instruments measured at fair value on a regular basis occur in the following situations:

- transfer from level 1 to 2 – if there are no market quotations available on active markets for identical instruments at the balance sheet date,
- transfer from level 2 to 3 – if the non-market item used in the valuation techniques used became material at the balance sheet date.

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. Such calculated amount is discounted by the discounted estimate of the potential future liability, which depends on the results of cooperation between the entities of the TU Europa S.A. Capital Group and the entities associated with Mr. Leszek Czarnecki within the period 2012-2021. The fair value of the option amounted to PLN 21,259 thousand. If share value increases by 1%, the fair value of the option will be reduced by PLN 652 thousand, if share value drops by 1%, the value of the option will increase by PLN 662 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

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 are 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 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 2.44% to 5.58%) amounted to PLN 143,925 thousand. In case of upward shift of risk margins by 25 basis points the fair value decreases by PLN 897 thousand, in case of downward shift of risk margins by 25 basis points the fair value increases by PLN 902 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.

Change in financial assets / liabilities categorised within Level 3 of the fair value hierarchy:

2017	Financial assets held for trading PLN thousand	Financial assets measured at fair value through profit or loss PLN thousand	Derivative financial instruments PLN thousand	Available-for-sale financial assets PLN thousand
Balance at the beginning of the period	**2,411**	**171,972**	**39,393**	**169,989**
Gains or losses, of which:	-	(3,391)	(26,210)	13,856
recognised in income statement	-	(3,391)	(26,210)	7,036
recognised in other comprehensive income	-	-	-	6,820
Purchases	-	-	-	12,974
Sales/ settlements	(2,411)	(10,090)	-	(26,764)
Other changes/ reclassifications/ transfers	-	-	-	-
Balance at the end of the period	**-**	**158,491**	**13,183**	**170,055**

2016	Financial assets held for trading PLN thousand	Financial assets measured at fair value through profit or loss PLN thousand	Derivative financial instruments PLN thousand	Available-for-sale financial assets PLN thousand
Balance at the beginning of the period	**-**	**166,817**	**39,836**	**202,737**
Gains or losses, of which:	-	(4,935)	(443)	(5,972)
recognised in income statement	-	(4,935)	(443)	7,763
recognised in other comprehensive income	-	-	-	(13,735)
Purchases	2,411	10,090	-	107,537
Sales/ settlements	-	-	-	(120,521)
Other changes/ reclassifications/ transfers	-	-	-	(13,792)
Balance at the end of the period	**2,411**	**171,972**	**39,393**	**169,989**

41.3. Non-financial assets at fair value in the statement of financial position

31.12.2017	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Investment properties	387,860	421,262

The fair value of investment properties has been classified at level 3 in the fair value hierarchy. Change in non-financial assets classified within Level 3 of the fair value hierarchy is presented in note II.28 of these financial statements.

42. 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 Bank 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 Bank has compensated the Fund’s assets with its liabilities to the Fund as these assets do not account for separate assets of the Bank. As a result of the above, net balance of settlements with the Fund as at 31 December 2017 and 2016 amounted to PLN 0.

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Allowances for the Fund during the reporting period	2,964	2,759

43. Additional notes to the statement of cash flows

For the purpose of the 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 Bank, covering actions aimed at generating profit but not constituting investment or financial activity. The Bank 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.

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Cash and balances with the Central Bank	3,341,591	3,152,193
Current amounts due from banks	35,416	23,170
Total cash and cash equivalents	**3,377,007**	**3,175,363**

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

2017	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	708,531	720,777	(12,246)	1)
Change in derivative financial instruments (assets)	(485,817)	(501,796)	15,979	2)
Change in available-for-sale financial assets	4,048,588	4,108,414	(59,826)	3)
Change in held-to-maturity financial assets	(1,621,897)	(1,461,998)	(159,899)	4)
Change in amounts due to banks and financial institutions	(694,376)	219,944	(914,320)	5)
Change in derivative financial instruments (liability)	(1,415,770)	(1,370,000)	(45,770)	6)
Change in debt securities issued	66,559	(4,216)	70,775	7)
Change in provisions	299	265	34	8)

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	1,011,916	1,002,300	9,616	1)
Change in derivative financial instruments (assets)	68,488	68,879	(391)	2)
Change in available-for-sale financial assets	533,453	457,122	76,331	3)
Change in held-to-maturity financial assets	(48,319)	(12,486)	(35,833)	4)
Change in amounts due to banks and financial institutions	(1,203,509)	(553,165)	(650,344)	5)
Change in derivative financial instruments (liability)	141,383	152,935	(11,552)	6)
Change in debt securities issued	(224,884)	2,136	(227,020)	7)
Change in provisions	(1,799)	(1,669)	(130)	8)

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 the payment of long term loan was excluded from "Change in amounts due to banks and financial institutions" and presented in financing activities.
6) „Change in derivative financial instruments (liabilities)" does not include the valuation of cash flow hedge recognized in revaluation reserve.
7) 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.
8) „Change in provisions" does not include actuarial gains/ (losses) recognized in the revaluation reserve.

44. Information on operating segments

The Bank conducts a business within the following main products/services:

- mortgage – financing of real estate market,
- car – financing of car purchases,
- retail – service of retail customers within deposit and investment products, and also funding of consumer demands of customers by means of consumer loans (mainly cash, in credit cards)
- corporate – service of corporates and budgetary units.

Within the management reporting the selected items of the income statement and the statement of financial position are presented by main product groups. The basis for the classification of particular types of income/expenses and balance sheet positions to particular group is:

- for loan products – criterion of the purpose of loans and advances granted and type of entity,
- for deposits – entity criterion, taking into account managerial classification of funds obtained from individual persons by the intermediary of financial entities within framework agreements.

Selected items of the income statement		01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Interest income	Mortgage loans	898,648	986,000
	Car loans	118,080	169,618
	Retail loans	534,716	626,628
	Corporate loans	482,677	486,626
	Other amounts due from clients	14,504	19,587
	Other activities of the Bank	540,819	570,662
	Total	**2,589,444**	**2,859,121**
Interest expense	Retail deposits	(861,399)	(1,104,308)
	Corporate deposits	(242,702)	(272,601)
	Other activities of the Bank	(211,820)	(202,565)
	Total	**(1,315,921)**	**(1,579,474)**
Net fee and commission income	Mortgage loans	1,318	4,409
	Car loans	5,944	5,304
	Retail loans	(3,756)	402
	Corporate loans	5,192	8,525
	Other activities of the Bank	88,048	40,337
	Total	**96,746**	**58,977**
Dividend income		42,834	84,945
Result on financial instruments measured at fair value through profit or loss and net foreign exchange result	Mortgage loans	30,567	15,774
	Car loans	281	513
	Other activities of the Bank	(11,845)	6,674
	Total	**19,003**	**22,961**
Result on other financial instruments		7,325	84,736
Result on investments in subsidiaries, associates and joint ventures		120,987	209,604
Other operating income		39,637	36,744
Other operating expense		(132,434)	(101,150)
Administrative expenses		(840,844)	(807,900)
Net impairment allowances on financial assets and off-balance sheet provisions	Mortgage loans	(563,991)	(254,103)
	Car loans	(43,774)	(31,117)
	Retail loans	(342,743)	(261,063)
	Corporate loans	(67,879)	(119,567)
	Other activities of the Bank	(332,038)	(41,761)
	Total	(1,350,425)	(707,611)
Share in profits/ (losses) of associates		14,614	(3,388)
Tax on certain financial institutions		-	(38,273)
Profit before tax		**(709,034)**	**119,292**
Income tax		142 302	(26,496)
Net profit		**(566,732)**	**92,796**

Selected items of the statement of financial position		31.12.2017 PLN thousand	31.12.2016 PLN thousand
Assets	Mortgage loans	26,579,069	30,618,593
	Car loans	1,663,042	1,955,736
	Retail loans	4,207,642	4,261,142
	Corporate loans	11,193,646	10,574,656
	Other assets	16,616,047	19,110,894
	Total	**60,259,446**	**66,521,021**
Equity and liabilities	Retail deposits*	41,419,635	45,465,940
	Corporate deposits*	7,237,360	7,605,507
	Other liabilities and equity	11,602,451	13,449,574
	Total	**60,259,446**	**66,521,021**

* Value of deposits without accrual interests and value adjustments, which are presented in the line 'Other'.

45. Related party transactions

Getin Noble Bank S.A. understands related party as the Bank's subsidiaries and associates, as well as its subordinated entities, and entities related to the ultimate parent – Mr. Leszek Czarnecki.

Related entities, within its operations, hold current accounts in Getin Noble Bank, on which they carry out clearing operations and deposit cash on term deposits.

Within loan activities to related parties, the Bank applies standard loan conditions:

- transactions are concluded in accordance with accepted by the Bank rules and conditions,
- the assessment of reliability of related entities, is based on rules applicable during the assessment of creditworthiness of the Bank's other customers,
- the rules for funding transactions hedge are in accordance with the instruction of legal hedge applicable in the Bank,
- applied by the Bank general rules of monitoring of payments and rules of termination of agreements and receivables collection.

Additionally, the Bank purchases debts from related entities and acts as an agent in sale of insurance policies and investment products offered by related entities and also uses intermediary services related to sale of own products.

31.12.2017	Statement of financial position						Off-balance sheet
	Assets – loans and purchased receivables PLN thousand	Assets – financial instruments PLN thousand	Assets – other receivables PLN thousand	Liabilities – deposits PLN thousand	Liabilities – other PLN thousand	Impairment allowances PLN thousand	Financial liabilities and guarantees granted PLN thousand
Subsidiaries	**956,737**	**1,013,778**	**9,812**	**664,441**	**2,428,634**	**226**	**12,758**
Associates	**-**	**499,192**	**17,799**	**29,457**	**-**	**-**	**162**
Entities related by the parent:	**5,789,283**	**197,903**	**288,261**	**2,532,126**	**11,118**	**80**	**18,673**
Entities of Getin Leasing S.A. Group	5,658,179	63,156	252	89,333	11,060	8	14,538
Entities of Getin Holding S.A Group	25,024	-	118,530	15,757	-	9	637
Entities of Idea Bank S.A. Group	99,556	121,773	19	19,922	-	38	3,000
Entities of LC Corp B.V. Group	6,524	12,974	169,460	2,405,361	-	25	486
Other entities	-	-	-	1,753	58	-	12
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**1,495**	**-**	**-**	**13,399**	**-**	**2**	**1,601**

31.12.2016	Statement of financial position						Off-balance sheet
	Assets – loans and purchased receivables PLN thousand	Assets – financial instruments PLN thousand	Assets – other receivables PLN thousand	Liabilities – deposits PLN thousand	Liabilities – other PLN thousand	Impairment allowances PLN thousand	Financial liabilities and guarantees granted PLN thousand
Subsidiaries	**835,827**	**-**	**14,319**	**471,381**	**1,894,674**	**19**	**20,202**
Associates	**-**	**79,981**	**28,428**	**17,037**	**350**	**9**	**-**
Entities related by the parent:	**5,589,724**	**89,991**	**293,953**	**3,579,190**	**169**	**105**	**38,079**
Entities of Getin Leasing S.A. Group	5,354,817	75,357	855	37,857	168	10	7,125
Entities of Getin Holding S.A Group	24,868	8,559	142,500	30,631	1	10	4,625
Entities of LC Corp B.V. Group and LC Corp S.A.	210,036	6,075	150,596	3,506,275	-	85	26,320
Other entities	3	-	2	4,427	-	-	9
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**1,661**	**-**	**-**	**7,276**	**-**	**2**	**1,602**

01.01.2017-31.12.2017	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
Subsidiaries	**81,269**	**113,981**	**11,743**	**862**	**38,576**
Associates	**17,733**	**24,694**	**1,282**	**295**	**4,227**
Entities related by the parent:	**329,402**	**408,922**	**33,634**	**7,720**	**1,225**
Entities of Getin Leasing S.A. Group	223,679	37,865	7,652	3,264	-
Entities of Getin Holding S.A Group	6,149	269	112	8	-
Entities of Idea Bank S.A. Group	1,647	210	-	4,299	-
Entities of LC Corp B.V. Group and LC Corp S.A. *	97,909	370,559	22,236	145	1,225
Other entities	18	19	3,634	4	-
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**27**	**198**	**-**	**-**	**-**

* In September 2017, in connection with the sale of all shares of LC Corp S.A. held by entities related to the Bank by the main shareholder, companies belonging to the LC Corp S.A. Group ceased to be related entities to GNB SA; transactions presented above are only those included in the profit and loss account of the Bank until the date of the sale transaction.

01.01.2016-31.12.2016	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
Subsidiaries	**79,977**	**113,626**	**12,142**	**68,703**	**35,511**
Associates – Open Finance S.A. Group	**5,522**	**33,956**	**1,351**	**21,402**	**-**
Entities related by the parent:	**238,649**	**170,704**	**28,240**	**235,564**	**38,040**
Entities of Getin Leasing S.A. Group	219,082	34,275	5,822	4,452	38,040
Entities of Getin Holding S.A Group	9,202	536	127	87	-
Entities of LC Corp B.V. Group and LC Corp S.A.	10,344	135,873	18,821	210,038	-
Other entities	21	20	3,470	20,987	-
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**32**	**182**	**-**	**-**	**-**

Selected transactions with the related entities

On 14 July 2017 the Bank entered into significant agreements regarding securitization transactions of the loan portfolio from car loans. The main contract is a Securitization Agreement regarding the sale by the Issuer of receivables from car loans worth

PLN 700 million to GNB Auto Plan 2017 sp. z o.o. with its registered office in Warsaw ("SPV") for the price of the outstanding loan principal. As a result of the actions undertaken, the special-purpose entity issued senior bonds with the value of PLN 500 million. The issue was covered by the European Investment Bank (EIB). This amount will be used to conduct further lending activities, including in the SME segment. The issue has ratings assigned by two rating agencies: Moody's (Aa3 sf) and Scope Ratings (AAA sf). In both cases, it is a rating at the maximum level provided for Polish instruments structured by each agency.

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

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Management Board of the Bank	**12,140**	**10,435**
Short-term employee benefits	11,008	9,392
Share-based payments	1,132	1,043
Supervisory Board of the Bank	**2,848**	**1,243**
Short-term employee benefits	2,848	1,243
Total remuneration of the Management Board and the Supervisory Board of the Bank	**14,988**	**11,678**

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 2017 and 2016 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 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 amount of bonus granted and paid reflects financial situation of the Bank and appropriate level of risk ratios, cost of capital and liquidity risk in long term, 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 proportionally. Moreover, deferred variable components of remuneration are conditional. It is conditioned, among other things, by the lack of a significant deterioration of the Bank's situation as a result of activities falling within the responsibilities of a given Manager, exceeding the risk, capital and liquidity risk ratios that exposed the Bank to significant losses.

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

- 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 3 or 5 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.

46. Remuneration of the auditor

The table below presents remuneration of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. paid or due for the year ended 31 December 2017 and of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. paid or due for the year ended 31 December 2016 split into types of services in net values:

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Statutory audit of the annual financial statements	658	386
Other certifying services, including the review of the financial statements	282	360
Total remuneration of the auditor	**940**	**746**

47. Employment

The number of employees of the Bank as at 31 December 2017 and 2016 was as follows:

	31.12.2017	31.12.2016
Employment in persons	5,126	4,916
Employment in full-time equivalents	5,092.2	4,890.5

48. Subsequent events

On 26 January 2018 the Management Board of Getin Noble Bank S.A. adopted a resolution on the increase of the Bank's share capital within the authorized capital by private subscription for series C shares. Pursuant to the resolution, the Bank's Management Board decided to increase the share capital from PLN 2,461,630,421.25 to PLN 2,651,630,416.89, i.e. by the amount of PLN 189,999,995.64, by issuing 69,597,068 ordinary bearer series C shares with a nominal value of PLN 2.73 per share.

On 23 February 2018 the General Meeting of the Bank adopted a resolution on the exclusion of the pre-emptive right to series C shares. The subscription for series C shares was in the form of a private subscription and the take-up of series C shares took place until 31 March 2018 by concluding relevant agreements for the subscription of series C shares (submitting bids by the Bank and their acceptance by designated addressees related by capital or by person with Mr. Leszek Czarnecki).

On 11 April 2018 the Bank received from the Polish Financial Supervision Authority a decision regarding the consent to amend the Bank's Articles of Association, which will come into force on the day of its entry in the Register of Entrepreneurs of the National Court Register, in accordance with art. 430 §1 of the Code of Commercial Companies.

On 22 March 2018 the Management Board of Getin Noble Bank S.A. adopted a resolution to commence activities aimed at preparing and conducting the process of merging BPI Bank Polskich Inwestycji S.A. with GNB by transferring all assets of the acquired company (BPI) to the acquiring company (GNB) pursuant to art. 492 §1 point 1) of the Code of Commercial Companies. Due to the fact that the Bank holds 100% of BPI shares, the merger will be carried out in the simplified mode referred to in Art. 516 § 6 of the Commercial Companies Code. As at the date of preparation of these financial statements, the Bank started and conducts preliminary works in the area of identifying areas in which integrating measures will have to be taken. The above is to allow identification of risks and problems that could affect the course of the merger process, as well as to enable setting the time frame for performing the necessary operational activities.

After 31 December 2017 there were no other events which were not disclosed in these financial statements which may significantly impact the future financial results of Getin Noble Bank S.A.

III. FINANCIAL RISK MANAGEMENT AT THE BANK

Risk management is one of the key elements of the management of the Bank. Getin Noble Bank S.A. is exposed primarily to the risks typical for the operations of universal banks. Therefore, credit risk, liquidity risk, market risk and operational risk management are of key importance in the Bank's operations. The compliance risk management also becomes more and more important.

The goal of risk management in the long-term is stabilization of the Bank's financial result, and in the short-term to maintain the assumed values of asset quality parameters and the desired balance sheet and off-balance sheet structure, as well as the quality of operating processes in order to achieve the assumed income to risk ratio.

Historically, as a result of the credit policy and liberal rules governing the credit process before 2010, the ratio was unfavourable, which was reflected primarily in the increased profile of credit risk and the accumulation of impairment losses on loan portfolios. Since then, the risk management method in the Bank has been subject to gradual changes and improvement. Nevertheless, the pace of these changes was not adjusted to the pace of deterioration of the old loan portfolio, nor to the needs resulting from the reconstruction of the Bank's operation in the direction towards relational model. As a consequence of this situation, the previously mentioned income to risk ratio in 2017 was at unacceptable level. In connection with this, a number of measures have been taken to change the way the Bank is managed, including the decision to introduce in the risk management necessary changes to modernize this management area. The fourth quarter of 2017 was devoted to:

- preparation of organizational changes in the risk management division, that will strengthen the role of the division in managing the Bank, streamlining of the risk management processes and adapting them to changes in the activity on the sales side (some organizational changes have already been implemented),
- review of the loan portfolio based on a more conservative approach to assessing the likelihood of recovery of non-performing exposures;
- completing the necessary changes in the methodology of the loan portfolio valuation as part of the new IFRS 9 regime.

These activities were accompanied by the intention to build a solid base for gradual recovery by the Bank of the assumed level of profitability and capital adequacy ratios and their stabilization in the long term at the expected level.

In line with the law obligations, supervisory requirements and good market practice, the Bank's Management Board is responsible for risk management at the strategic level. Assumptions in this respect are included in "Strategy and credit exposures risk management policy of Getin Noble Bank S.A.". At the operational level, risk management committees have been established, that are responsible for recommendations and decisions as well as monitoring of certain types of risk. These are:

- Credit Committee,
- Asset and Liability Committee,
- Operating Risk Committee.

In addition to the aforementioned tasks related to risk level monitoring, the committees make decisions that change risk management policies on an ongoing basis, internal exposure limits for particular types of risk. These tasks are carried out as part of the strategies adopted by the Bank's Management Board, taking into account regulatory requirements, including supervisory limits.

Corporate governance in the field of risk management policy is exercised by the Supervisory Board of the Bank.

1. Credit risk

Credit risk results from the potential failure or untimely performance by the client of his financial liabilities resulting from transactions concluded, in particular loans and financial instruments.

Credit risk management at Getin Noble Bank S.A. aims to build and maintain credit portfolios with expected by the Bank level of risk expressed by risk costs averaged for individual portfolios, understood as the relation of loan impairment losses recognised in a given analytical period to the average balance of credit exposures. To reach this goal, the Bank manages credit risk at all stages of the life of loan portfolios/ transactions, i.e.:

- customer acquisition and lending process,
- monitoring the credit exposures and the financial situation of clients,
- monitoring the risk parameters of individual loan portfolios,
- restructuring and recovery of credit exposures.

Risk management tools are credit policies, including industry-specific ones, acceptance rules, scoring and rating models for transaction selection and creditworthiness assessment, scoring models for the use of recovery paths, credit process organization, including rules and decision-making competences included in operational procedures, etc. As mentioned earlier, in 2017 significant changes were made in the credit and acceptance policy, and from the fourth quarter of 2017 began the restructuring of the credit risk management function, which will be continued and completed in 2018. The previous organizational structure was characterized by the dominance of the product approach, and the organizational division followed the division of functions within the credit process. The organizational changes implemented are based, on the one hand, on reflecting the transition of sales model of the Bank from a product model towards a relational model, based on a customer approach, and on the other hand, a permanent modification of the quality of credit risk management, which should provide primarily:

- improved ability to day-to-day management of credit portfolios by enabling a faster response to changes in the quality of loan portfolios and events in the Bank's environment, including the economic situation,
- enabling early identification of endangered exposures,
- increased efficiency of recovery of receivables as part of restructuring and debt collection activities.

Structure and organization of credit risk management process

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. The Supervisory Board, at the request of the Bank's Management Board, issues recommendations referring to the largest loan exposures.

Management Board of the Bank

The Bank's Management Board is responsible for the development, implementation and updates of strategy and procedures in the credit risk management system as well as the credit policy, 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. Pursuant to the Management Board's decision, there are the Credit Committee and the Credit Risk and Concentration Risk

Committee in the Bank. The Bank's Management Board makes credit decisions regarding exposures in accordance with given decision levels (expressed by the amount of exposure).

Credit Committee of the Bank

The Bank’s Credit Committee role is to support the Bank’s Management Board by 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 takes the majority of loan decisions and accepts recommendations regarding credit exposures reserved by its size to the decision of the Bank's Management Board.

Credit Risk and Concentration Risk Committee

The Credit Risk and Concentration Risk Committee acts as a consultative and advisory body in the credit risk management process in the Bank and in the concentration risk management process. His tasks include: assessing the level of credit risk occurring in the Bank, including concentration risk, counterparty risk, product and credit risk occurring in the Bank's subsidiaries, recommending the level of "risk appetite" for a given calendar year and adopting reports from its implementation during the year, assessment of the results of stress tests and possible recommendation to take specific actions, consideration of reports, simulations, information about credit risk and/ or debt collection processes and supervision over comprehensive approach to concentration risk, recommending a specific proceeding in the case related to concentration risk, analyzing and reviewing periodic reports related to concentration risk.

At the end of 2017 the structure of the risk management division was still under transformation. The changes introduced were aimed at creating two legible credit risk management centers for retail and non-retail customers, integrating the entire risk management process of these two customer groups, i.e. credit policy, acceptance policy, credit decisions, monitoring of portfolio and individual exposures. Only debt collection will be a separate area combining recovery of receivables from all customer groups within the scope of its tasks. The target structure of the credit risk management division will cover three areas:

- credit risk of retail clients,
- credit risk of corporate clients,
- debt recovery.

At the end of the year it additionally included the area of credit decisions, the tasks of which will be separated from May 2018 to credit risk areas, of retail and corporate clients respectively. Also, from May 2018, tasks related to the valuation of loan portfolios will be transferred to the newly created Financial Risk Department.

Credit Risk Area of Retail Customers

Within the separated Credit Risk Area of Retail Customers, there are the following organizational units:

- Retail Credit Risk Management Department, which is responsible for managing the loan portfolio and credit risk at every stage of the credit process at the Bank,
- Credit Risk System Analysis Department, which performs tasks related to credit risk reporting in the Bank's operations. The department's tasks also include determining the level of impairment write-offs and calculating capital requirements for credit risk,
- Statistical Analysis Department, which key task is the development of credit risk models with particular emphasis on acceptance models (scoring, rating). Ultimately, in this organizational unit all functions related to the construction and development of statistical models for all types of credit risk will be centralized,

- Fraud Risk Management Department, which task is to define the policy of counteracting extortion in the field of credit products as well as transactional aspects, development and maintenance of tools supporting the anti-fraud process.

<u>Credit Risk Area of Corporate Customers</u>

In the organizational structure of the Bank, a new Credit Risk Area of Corporate Customers has been created, in which operate the following organizational units:

- Corporate Credit Risk Management Department responsible for defining credit policy, including industry policies, optimization of the credit process and credit regulations. The department's tasks also include setting concentration limits in the area of enterprises,
- Real Estate Management Office, which carries out tasks in the field of real estate management, administration and maintenance of the proper technical condition and sale of real estate taken over by the Bank through debt collection.

<u>Debt Collection Area</u>

In the organizational structure of the Bank, the Debt Collection Area is identified, in which the following organizational units are located:

- Difficult Loans Department responsible for individualized monitoring and restructuring processes for clients with individual exposure from a single contract > = PLN 400 thousand,
- Telephone Collection Department, whose main task is mass monitoring and collection processes for customers with individual exposure from a single contract below PLN 400 thousand,
- Local Debt Collection Department, which implements monitoring and debt collection processes through direct contacts with clients in the area of the Bank's irregular portfolio,
- Department of Judicial and Enforcement Proceedings, responsible for court and enforcement actions to recover debts to the Bank through forced means,
- External Debt Collection Department, responsible for cooperation with external entities (outsourcing) and sales of the Bank's portfolios,
- Debt Collection Services Support Office – unit responsible for supporting processes for monitoring and recovery activities (written recovery processes, archiving, projects and initiatives) and valuation of significant individual transactions,
- Office of Analyzes and Statistical Projects – the main task of the unit is to provide reporting, setting goals for employees of individual units of the Debt Collection Area and preparing internal analyzes,
- Legal Advisors' Team – responsible for the legal service of cases carried out by the debt collection area.

<u>Internal audit unit</u>

The role of the internal audit unit 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 unit is to identify any irregularities in executing roles and tasks by credit risk management system participants.

Credit risk management strategies and processes

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.

The credit strategy for all areas is included in the documents, primarily in the "Strategy and Credit Risk Management Policy in Getin Noble Bank S.A.", which set out the principles, guidelines and recommendations regarding issues related to lending activities.

The credit risk policy is subject to reviews and adjustments to external regulations (KNF resolutions), as well as to macroeconomic factors that may, in the Bank's opinion, have an impact on the credit risk increase.

In 2017 the Bank settled issues related to concentration risk resulting from the amended Recommendation C. The Bank undertook significant actions limiting the credit risk of retail loans, the effect of which is visible in reducing the risk of unsecured retail loans granted in 2017.

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, however, the Bank intends to accelerate changes in the applied models consistently implementing risk management approach based on estimating the expected loss (EL).

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. The employees of the risk management department who are specialized for this task are responsible for the assessment and acceptance of individual credit applications and the preparation of recommendations for higher-level decision bodies.

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.

In line with the model of relational bank, the gradual further changes will be applied to the methods used in the area of loan acceptance, aiming at consistent models based on managing the customer's credit profile instead of the product approach.

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 management 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, including large exposures,,
- 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 stress tests for selected 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 2017 (except the exposure to National Bank of Poland and governments, including State Treasury) only exposure to the group of entities related to the Bank by the parent and the exposure to GNB Leasing Plan Ltd. (own securitization exposure) 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 to customers who receives its income in particular currency or hedge against exchange rate risk. Foreign currency loans, primarily occur also in the case of financing revenue real estate, which results from the specificity of this market, where the reference currency is still EUR.

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 31.12.2017	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 value PLN thousand
Loans and advances:					
individually assessed	186,996	905,447	(266)	(444,705)	647,472
collectively assessed	422,993	1,966,169	(14,692)	(824,392)	1,550,078
Total	**609,989**	**2,871,616**	**(14,958)**	**(1,269,097)**	**2,197,550**

Forborne exposures 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 value 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 – by geographical segments	31.12.2017			31.12.2016		
	Gross value PLN thousand	Allowances, including IBNR PLN thousand	Total net value PLN thousand	Gross value PLN	Allowances, including IBNR PLN thousand	Total net value PLN thousand
Poland	3,412,915	(1,266,013)	**2,146,902**	3,721,331	(1,093,697)	**2,627,634**
Ireland	15,914	(4,707)	**11,207**	19,173	(6,463)	**12,710**
Great Britain	29,806	(8,414)	**21,392**	19,080	(7,214)	**11,866**
Other countries	22,970	(4,921)	**18,049**	21,729	(3,860)	**17,869**
Total	**3,481,605**	**(1,284,055)**	**2,197,550**	**3,781,313**	**(1,111,234)**	**2,670,079**

Forborne exposures – by type of debtor	31.12.2017			31.12.2016		
	Gross value PLN thousand	Allowances, including IBNR PLN thousand	Total net value PLN thousand	Gross value PLN	Allowances, including IBNR PLN thousand	Total net value PLN thousand
Loans and advances to:						
financial institutions other than banks	10,400	(6,027)	**4,373**	12,085	(5,064)	**7,021**
non-financial institutions other than natural persons	555,443	(252,565)	**302,878**	600,387	(217,360)	**383,027**
natural persons	2,915,762	(1,025,463)	**1,890,299**	3,168,841	(888,810)	**2,280,031**
Total	**3,481,605**	**(1,284,055)**	**2,197,550**	**3,781,313**	**(1,111,234)**	**2,670,079**

Forborne exposures – by type of debt	31.12.2017			31.12.2016		
	Gross value PLN thousand	Allowances, including IBNR PLN thousand	Total net value PLN thousand	Gross value PLN	Allowances, including IBNR PLN thousand	Total net value PLN thousand
corporate loans	282,279	(131,454)	**150,825**	269,756	(76,264)	**193,492**
car loans	117,172	(80,538)	**36,634**	133,340	(79,419)	**53,921**
mortgage loans	2,764,350	(944,780)	**1,819,570**	3,029,507	(801,836)	**2,227,671**
retail loans	317,804	(127,283)	**190,521**	348,710	(153,715)	**194,995**
Total	**3,481,605**	**(1,284,055)**	**2,197,550**	**3,781,313**	**(1,111,234)**	**2,670,079**

Forborne exposures – by due dates	31.12.2017			31.12.2016		
	Gross value PLN thousand	Allowances, including IBNR PLN thousand	Total net value PLN thousand	Gross value PLN thousand	Allowances, including IBNR PLN thousand	Total net value PLN thousand
not overdue and overdue up to 30 days	1,179,872	(113,358)	1,066,514	1,502,824	(117,096)	1,385,728
overdue over 30 days to 90 days	307,214	(77,251)	229,963	338,594	(53,292)	285,302
overdue over 90 days	1,994,519	(1,093,446)	901,073	1,939,895	(940,846)	999,049
Total	**3,481,605**	**(1,284,055)**	**2,197,550**	**3,781,313**	**(1,111,234)**	**2,670,079**

Forborne exposures – change in balance	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Balance as at beginning of the period	**2,670,079**	**3,044,451**
Value of exposures recognized in the period	733,840,	817,113
Value of exposures derecognized in the period	(826,230)	(1,015,991)
Repayments /other changes	(207,317)	(104,511)
Revaluation of impairment allowances	(172,822)	(70,983)
Balance as at end of the period	**2,197,550**	**2,670,079**

Forborne exposures	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Value of collateral	2,162,141	2,603,444

Structure of the loan portfolio

The structure of the Bank's loan portfolio by type of a loan, geographical segments and economy sector 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	
	31.12.2017	31.12.2016
Loans granted to natural persons:	72.32	74.35
car loans	2.34	1.85
instalment loans	0.30	0.41
housing, construction and mortgage loans	58.87	62.14
other loans	10.81	9.95
Corporate loans	27.68	25.65
Total	**100.00**	**100.00**

Amount of concentration by industries	% share in portfolio	
	31.12.2017	31.12.2016
Agriculture and hunting	0.31	0.30
Mining	0.05	0.05
Manufacturing	1.87	1.85
Electricity and gas industry	0.04	0.05
Construction	3.41	2.88
Wholesale and retail	5.01	4.73
Transport, warehouse management and communication	3.50	3.58
Financial brokerage	3.31	2.32
Real estate management	3.24	3.36
Public administration	1.57	1.46
Other sections	5.37	5.07
Natural persons	72.32	74.35
Total	**100.00**	**100.00**

Amount of concentration by geographical segments	% share in portfolio	
	31.12.2017	31.12.2016
According to the administrative division of Poland:		
Dolnośląskie	10.77	10.60
Kujawsko-Pomorskie	3.97	3.95
Lubelskie	2.85	2.83
Lubuskie	2.38	2.38
Łódzkie	4.95	5.07
Małopolskie	6.66	6.61
Mazowieckie	24.64	24.69
Opolskie	1.80	1.83
Podkarpackie	2.32	2.31
Podlaskie	1.41	1.33
Pomorskie	7.79	7.93
Śląskie	10.69	10.78
Świętokrzyskie	1.32	1.33
Warmińsko-Mazurskie	3.11	3.09
Wielkopolskie	7.94	7.83
Zachodniopomorskie	4.71	4.75
Resident of a foreign country	2.69	2.69
Total	**100.00**	**100.00**

Maximum exposure of the Bank to credit risk without taking into account accepted collaterals and other factors improving loan quality as at 31 December 2017 and 2016 is presented below:

Maximum exposure to credit risk	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand
Financial assets:		
Cash and balances with the Central Bank (except for cash)	3,131,201	2,972,730
Amounts due from banks and financial institutions	288,019	996,550
Financial assets held for trading	-	2,411
Financial assets at fair value through profit or loss	158,491	171,972
Derivative financial instruments	576,403	90,586
Loans and advances to customers and finance lease receivables	43,643,399	47,410,127
Available-for-sale financial assets	7,654,539	11,703,127
Held-to-maturity financial assets	1,824,538	202,641
Other financial assets	431,487	507,496
Total financial assets	**57,708,077**	**64,057,640**
Guarantee liabilities	169,036	174,556
Contingent liabilities	1,954,096	2,131,104
Total off-balance sheet liabilities	**2,123,132**	**2,305,660**
Total exposure to credit risk	**59,831,209**	**66,363,300**

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.

Value of collateral used for calculating impairment allowance for loans individually significant as at 31 December 2017 amounted to PLN 0.78 billion (PLN 0.83 billion as at 31 December 2016).

Value of assets possessed in exchange for debts in 2017 amounted to PLN 49.9 million (PLN 80.3 million in 2016).

Credit quality of financial assets as at 31 December 2017 and 2016 is presented below:

Credit quality of financial assets as at 31.12.2017	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	**282,498**	**-**	**-**	**-**	**-**	**5,682**	**(161)**	**288,019**
Financial assets held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial assets at fair value through profit or loss	**158,491**	**-**	**-**	**-**	**-**	**-**	**-**	**158,491**
Loans and advances to customers, of which:	**36,296,883**	**2,390,292**	**588,131**	**211,657**	**7,222,207**	**130,445**	**(3,196,216)**	**43,643,399**
corporate loans	8,653,658	1,688,723	318,200	62,615	815,658	33,165	(378,373)	**11,193,646**
car loans	1,424,576	83,649	12,294	4,663	340,497	4,381	(207,018)	**1,663,042**
mortgage loans	22,892,198	458,736	220,822	125,806	4,672,705	70,431	(1,861,629)	**26,579,069**
retail loans	3,326,451	159,184	36,815	18,573	1,393,347	22,468	(749,196)	**4,207,642**
Available-for-sale financial assets, of which:	**7,653,575**	**-**	**-**	**-**	**10,199**	**-**	**(9,235)**	**7,654,53**
issued by central banks	799,785	-	-	-	-	-	-	**799,785**
issued by banks and other financial institutions	281,322	-	-	-	-	-	-	**281,322**
issued by the State Treasury	6,571,376	-	-	-	-	-	-	**6,571,376**
issued by non-financial institutions	1,092	-	-	-	10,199	-	(9,235)	**2,075**
Held-to-maturity financial assets, of which:	**1,824,538**	**-**	**-**	**-**	**-**	**-**	**-**	**1,824,538**
issued by financial institutions	150,949	-	-	-	-	-	-	150,949
issued by the State Treasury	1,461,148	-	-	-	-	-	-	1,461,148
issued by local government units	173,233	-	-	-	-	-	-	173,233
issued by non-financial institutions	39,208	-	-	-	-	-	-	39,208
Total financial assets	**46,215,985**	**2,390,292**	**588,131**	**211,657**	**7,232,406**	**136,127**	**(3,205,612)**	**53,568,986**

Credit quality of financial assets as at 31.12.2016 (restated)	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	**991,383**	**-**	**-**	**-**	**-**	**5,792**	**(625)**	**996,550**
Financial assets held for trading	**2,411**	**-**	**-**	**-**	**-**	**-**	**-**	**2,411**
Financial assets at fair value through profit or loss	**171,972**	**-**	**-**	**-**	**-**	**-**	**-**	**171,972**
Loans and advances to customers, of which:	**39,843,466**	**2,043,226**	**464,856**	**284,941**	**7,222,557**	**246,269**	**(2,695,188)**	**47,410,127**
corporate loans	8,523,550	1,261,329	173,362	101,225	822,535	33,527	(340,872)	**10,574,656**
car loans	1,669,968	108,095	17,235	6,992	334,939	5,809	(187,302)	**1,955,736**
mortgage loans	26,233,816	535,746	235,005	156,066	4,759,052	183,651	(1,484,743)	**30,618,593**
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:	**11,702,286**	**-**	**-**	**-**	**11,045**	**-**	**(10,204)**	**11,703,127**
issued by central banks	824,780	-	-	-	-	-	-	**824,780**
issued by banks and other financial institutions	239,288	-	-	-	-	-	-	**239,288**
issued by the State Treasury	10,588,285	-	-	-	-	-	-	**10,588,285**
issued by non-financial institutions	49,933	-	-	-	11,045	-	(10,204)	**50,774**
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	**52,914,159**	**2,043,226**	**464,856**	**284,941**	**7,233,602**	**252,061**	**(2,706,017)**	**60,486,828**

2. Operational risk

Definition and purpose of operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, human and system errors or from external events, including legal risk. The operational risk category does not include strategic risk and reputation risk.

The 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 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 units 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, the following groups of units, persons and functions, which are executed at three following levels are to be distinguished:

- basic level – units and staff dealing with operational risk management in their everyday activities;
- supervisory level – staff holding managerial positions, performing functional control;
- 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 Office and Operational Risk Committee.

The leading role in operational risk management is fulfilled by the Bank's Supervisory Board and Management Board. The activities of the Bank's Management Board, at the operational level, are carried out by the Operational Risk Committee – its task is to monitor operational risk, provide opinions on regulations relating to operational risk management and recommend risk measures and standards.

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

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;
- including characteristics of rules already applied in the Bank as well as being in the development phase and planned in the future.

The existing operational risk reporting and measurement system is supported by an IT system that allows the recording of operational risk events, and the record of the effects of their occurrence. At the same time, it is the base and environment for cross-sectional analysis of operational risk, providing the basis for risk measurement and for the operational risk reporting system, which includes reports 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 includes among others the following calculations:

- 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. Liquidity risk

Liquidity risk is defined as the potential inability of the Bank to fail to meet its current and future financial obligations in accordance with contractual deadlines. Liquidity management is an obvious, key element of the Bank's risk management. The objective of liquidity risk management is to ensure the possibility of meeting obligations in the day horizon, the ability to maintain liquidity in the short, medium and long term both under normal conditions and in the event of crisis events.

In order to effectively manage liquidity, the Bank appropriately shapes the structure of assets and liabilities through deposit and credit policies, product price structure, etc. In this activity, the Bank is guided, on the one hand, by current short-term liquidity needs, as well as a long-term strategy to build a Bank's liquidity profile based on growing stable sources of financing. This was reflected in the Bank's reconstruction strategy, the important element of which is the implementation of the relational model, which will, inter alia, ensure the growth of stable sources of financing in the form of deposits on current accounts and saving accounts of retail clients and the segment of small and medium enterprises, reducing the importance of term deposits in the Bank's financing.

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. The referenced documents define the level of risk appetite understood as the expected level of risk exposure and the scope of tolerance, i.e. the maximum, impassable risk levels.

The Bank's activities in the area of liquidity risk management are compliant with the recommendations and prudential regulations of the Polish Financial Supervision Authority and the National Bank of Poland, but also with EU regulations. The Bank's liquidity risk management process, both at the strategic and operational level, is adapted to the requirements of Recommendation P.

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 belongs to 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, including LCR (Liquidity coverage ratio) and NSFR (Net stable funding ratio) ratios,
- internally determined measures of maturity mismatch of assets, balance sheet structure indices and measures of stability of financing sources,
- results of stress tests taking into account crisis scenarios referring to internal factors as well as factors relating to the situation on the financial markets.

Basic measures, key liquidity measures and the level of utilization of liquidity limits (including compliance with the supervisory liquidity standards and LCR ratio) are subject to daily monitoring and reporting to the Bank's Management Board.

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,
- lending is financed mainly by own funds and a stable deposit base,
- is operationally ready to apply to the NBP for refinancing loan,

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 2017 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 31.12.2017	Value as at 31.12.2016
M1	Short-term liquidity gap (in PLN million)	0.00	4,573	5,647
M2	Short-term liquidity factor	1.00	1.68	1.96
M3	Ratio of coverage of non-liquidity assets with own funds	1.00	2.10	2.56
M4	Coverage ratio of non- liquid assets and limited liquidity assets with own funds and stable external funds	1.00	1.21	1.24

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

31.12.2017	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	381,657	468,785	527,692	109,028	86,214	**1,573,376**
Derivative financial instruments	22,732	35,313	733	184,163	1,951	**244,892**
Amounts due to customers	21,513,009	11,875,606	12,450,473	3,261,672	289,004	**49,389,764**
Debt securities issued	7,921	431,780,	456,422	1,493,864	717,019,	**3,107,006**
Total financial liabilities	**21,925,319**	**12,811,484**	**13,435,320**	**5,048,727**	**1,094,188**	**54,315,038**

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	103,149	75,230	903,015	1,112,682	100,837	**2,294,913**
Derivative financial instruments	12,591	76,436	271,154	1,298,039	2,441	**1,660,661**
Amounts due to customers	18,989,621	13,855,958	15,379,323	4,389,505	1,434,261	**54,048,668**
Debt securities issued	5,613	31,900	370,755	2,222,896	409,122	**3,040,286**
Total financial liabilities	**19,110,974**	**14,039,524**	**16,924,247**	**9,023,122**	**1,946,661**	**61,044,528**

Customer deposits are the main source of financing lending activities of the Bank; the net loans to amounts due to customers ratio amounts to 90%. 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.

4. Market risk

Market risk consists in the possibility of incurring losses as a result of volatility of market factors, primarily interest rates, foreign exchange rates and prices of securities and other, including derivative financial instruments. Through the applied policy of assets and liabilities management and the system of market risk limits, the Bank aims to optimize the income to risk ratio.

The Asset and Liability Committee is responsible for market risk management at the Bank. Its role is to create a policy of assets and liabilities management, setting risk limits and monitoring their use. Operationally the Treasury Department is responsible for market risk management, performing ongoing monitoring of risk positions and shaping their size by entering into transactions on the interbank market and by defining exchange rates and transfer rates for transactions concluded with clients. The Market Risks and Valuations Office located in the risk management division is responsible for controlling market risk management. Its key tasks include monitoring of key market risk measures, developing risk measurement methods and recommending internal limits and prudential standards in this respect. The Market Risks and Valuation Office submits information on market risk management to the Assets and Liabilities Committee on a monthly 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. The Bank's currency position results from transactions concluded with the Bank's clients. The Bank does not conduct trading positions related to currency risk.

The Treasury Department monitors the level of the open currency position on an on-going basis and regulates its volume through currency transactions concluded on the interbank market. These are predominantly spot transactions. Apart from them, the Bank makes derivative transactions with limited internal limits. A separate issue is the management of currency risk resulting from the existing portfolio of mortgage loans indexed to CHF and EUR. In this respect, the volatility of cash flows of these portfolios is hedged through the portfolio of CIRS transactions. The effect of this hedge is reflected in the Bank's accounting books with the application of hedge accounting, preserving the necessary cash flow adjustment regime and their valuation.

The analysis of the Bank's exposure to currency risk takes place on the basis of market-based methods based on estimation of the impact of volatility on the financial result and on the use of the Bank's own funds. The basic methods in this area include:

- measurement of the Value of Risk (VaR),
- (stress tests,
- analysis of the size of the currency position in relation to own funds and calculation of the capital requirement for covering foreign exchange risk.

The Bank's exposure to currency risk and the calculation of the capital requirement necessary to cover foreign exchange risk is implemented on a daily basis and is part of the daily set of management information provided to the Bank's management, including the Management Board. The Market Risks and Valuation Office provides complete information on the foreign exchange risk to the Assets and Liabilities Committee. The report contains, among other things, information on the size of the Bank's currency positions in particular currencies, the size of risk measures and the degree of use of limits on open currency positions.

The process of managing and measuring the currency risk, its control and monitoring is supported by a number of IT tools whose key element is the Market Analysis and Liquidity Risk System (SARRP).

Sensitivity analysis for currency risk

Getin Noble Bank prepares on a daily basis sensitivity analysis for the currency risk at the Bank:

VAR (1D, 99.9%)	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Currency risk	877	384

This method is based on the value-at-risk (VaR) model and consists in examining, with 99.9% probability, the amount of the maximum loss that the Bank may incur in one day from the valuation of a currency position (as a result of changes in exchange rates), assuming normal market conditions. The volatility used in the model is calculated using exponentially weighted moving average (EWMA) daily relative changes in exchange rates over the last 251 business days. A time series of the same length has been used to determine the correlation matrix between particular exchange rates. The VaR measure does not express the absolute maximum loss to which the Bank is exposed. VaR is a measure that determines the level of risk at a given moment in time, reflecting the positions for a specific moment, which do not have to reflect the risk of the Bank position at another time and is a tool for the current management of the currency position.

In 2017 the average 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 Bank amounted to 0.07%, while the maximum share in 2017 amounted to 0.90% of the funds. During the reporting period, the currency risk of the Bank was on the level which did not require maintaining capital for its coverage.

The tables below show the currency exposure by individual classes of assets, liabilities and off-balance sheet liabilities:

Currency exposure by classes of assets, liabilities and off-balance sheet items as at 31.12.2017	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	1,990,580	1,308,952	8,222	28,171	5,666	-	-	3,341,591
Amounts due from banks and financial institutions	8,970	244,764	5,704	3,642	6,933	14,760	3,246	288,019
Loans and advances to customers	32,623,533	739,933	10,007,787	43,069	4	229,072	1	43,643,399
Other assets	11,728,524	1,086,757	8,702	162,434	10	10	-	12,986,437
Total assets	**46,351,607**	**3,380,406**	**10,030,415**	**237,316**	**12,613**	**243,842**	**3,247**	**60,259,446**
Amounts due to banks and financial institutions	1,199,232	360,470	56	14	-	-	-	1,559,772
Amounts due to customers	45,863,400	1,745,976	177,390	876,610	45,324	651	1,480	48,710,831
Other liabilities	5,639,740	5,074	71	-	-	-	-	5,644,885
Total liabilities	**52,702,372**	**2,111,520**	**177,517**	**876,624**	**45,324**	**651**	**1,480**	**55,915,488**
Total equity	**4,343,958**	**-**	**-**	**-**	**-**	**-**	**-**	**4,343,958**
Total liabilities and equity	**57,046,330**	**2,111,520**	**177,517**	**876,624**	**45,324**	**651**	**1,480**	**60,259,446**
NET EXPOSURE	**10,694,723**	**(1,268,886)**	**(9,852,898)**	**639,308**	**32,711**	**(243,191)**	**(1,767)**	**-**
OFF-BALANCE SHEET ITEMS								
Assets	15,123,553	398,125	1,449,406	1,490,501	34,672	61,826	255	18,558,338
Liabilities	4,076,865	1,667,918	11,348,058	851,941	2,209	309,131	465	18,256,587
GAP	**351,965**	**(907)**	**(45,754)**	**(748)**	**(248)**	**(4,114)**	**1,557**	**301,751**

Currency exposure by classes of assets, liabilities and off-balance sheet items as at 31.12.2016 (restated)	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	2,142,648	970,423	8,329	25,853	4,940	-	-	**3,152,193**
Amounts due from banks and financial institutions	38,601	935,680	5,276	4,643	3,935	3,628	4,787	**996,550**
Loans and advances to customers	33,249,864	975,042	12,801,731	64,729	2	318,758	1	**47,410,127**
Other assets	13,548,519	1,210,542	10,323	192,761	3	3	-	**14,962,151**
Total assets	**48,979,632**	**4,091,687**	**12,825,659**	**287,986**	**8,880**	**322,389**	**4,788**	**66,521,021**
Amounts due to banks and financial institutions	2,250,334	3,733	64	17	-	-	-	**2,254,148**
Amounts due to customers	49,925,193	1,865,460	246,778	1,030,410	34,244	310	3,541	**53,105,936**
Other liabilities	6,384,936	3,570	204	1,053	25	-	42	**6,389,830**
Total liabilities	**58,560,463**	**1,872,763**	**247,046**	**1,031,480**	**34,269**	**310**	**3,583**	**61,749,914**
Total equity	**4,771,107**	-	-	-	-	-	-	**4,771,107**
Total liabilities and equity	**63,331,570**	**1,872,763**	**247,046**	**1,031,480**	**34,269**	**310**	**3,583**	**66,521,021**
NET EXPOSURE	**14,351,938**	**(2,218,924)**	**(12,578,613)**	**743,494**	**25,389**	**(322,079)**	**(1,205)**	**-**
OFF-BALANCE SHEET ITEMS								
Assets	17,618,687	950,067	2,222,868	1,189,453	26,332	71,496	-	**22,078,903**
Liabilities	4,848,203	3,172,706	14,790,399	446,546	912	386,972	-	**23,645,738**
GAP	**(1,581,454)**	**(3,715)**	**11,082**	**(587)**	**31**	**6,603**	**1,205**	**(1,566,835)**

4.2. Interest rate risk

The Bank's interest risk results from the negative effects of changes in market interest rates that are negative for the financial results. Its size is determined by the size of open balance sheet and off-balance items sensitive to changes in market interest rates. The Treasury Department monitors the term structure of assets and liabilities on an ongoing basis by making adjustments in accordance with the established policy of interest rate risk management, maintaining within internally determined prudential norms. The basic tools in this regard are transactions in securities and derivatives.

The Bank applies the market risk methods for measuring interest rate risk. The basic methods for measuring this risk are:

- analysis of the mismatch of the repricing dates of assets and liabilities and positions by currencies,
- analysis of basis risk, profitability curve risk and customer option risk,
- analysis of interest income exposed to risk (Earnings-at-Risk method),
- analysis of value at risk of the Bank's portfolio related to market valuation (VaR method),
- 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.

The Bank complies with the EBA Guidelines on interest rate risk management resulting from activities included in the non-trading portfolio published on 5 October 2015.

The Market Risks and Valuation Office monitors the interest rate risk parameters and provides complete information on the interest rate risk to the Assets and Liabilities Committee. The report contains, among other things, information on the size of risk measures and the degree of use of individual internal limits.

The process of managing and measuring the interest rate risk, its control and monitoring is supported by a number of IT tools whose key element is the Market Risk Analysis and Liquidity System (SARRP).

Sensitivity analysis for interest rate risk

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

	31.12.2017		31.12.2016	
	EaR (+/- 25 pb) PLN thousand	VAR (1D, 99.9%) PLN thousand	EaR (+/- 25 pb) PLN thousand	VAR (1D, 99.9%) PLN thousand
Interest rate risk	5,717	5,493	12,635	20,579

The method of analyzing interest income at risk (EaR) is based on estimating the potential change in the Bank interest result (sensitivity of financial result) in the perspective of the next 12 months in the case of changes in interest rates by 25 basis points (parallel shift of the yield curve). The method is based on the theoretical assumption of constancy of the portfolio throughout the analytical period, i.e. the Bank's failure to carry out any adjusting activities. So it is the image of the wallet at a given moment in time.

The Value at Risk (VaR) method is based on estimating with 99.9% probability, the amount of the maximum loss that the Bank may incur one day from portfolio valuation (due to changes in interest rates), assuming normal market conditions. This measure does not express the absolute maximum loss to which the Bank is exposed. VaR is a measure that determines the level of risk at a given moment in time and is a tool for current interest risk management. In order to supplement information on the possible loss of the Bank due to unfavourable changes in interest rates, stress tests are also conducted on a simulation of the impact of fundamental changes in market interest rates and the structure and balances of assets and liabilities and off-balance sheet items on the level of interest rate risk borne by the Bank in terms of net interest income and valuation of the portfolio of receivables/ liabilities sensitive to interest rate risk.

The Bank tests changes in the structure of assets and liabilities by taking into account the risk of the client options and 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:

- parallel shift of interest rate curves by +/- 200 basis points (the so-called standard supervisory shock),
- parallel shifts in the yield curve based on other values (internal scenarios),
- changes in the shape of the yield curve (internal scenarios).

The table below shows assets and liabilities and off-balance sheet items of the Bank classified as of 31 December 2017 and 2016 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 Bank 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 Bank. The maturity/ revaluation date of such items is subject to modelling in accordance with the rules adopted by the Bank.

Other assets and liabilities are presented as non-interest bearing assets/liabilities.

Assets, liabilities and off-balance sheet items classified in accordance to the criterion of the interest rate exposure as at 31.12.2017	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	3,131,202	-	-	-	-	210,389	**3,341,591**
Amounts due from banks and financial institutions	288,019	-	-	-	-	-	**288,019**
Loans and advances to customers	22,885,196	18,188,903	1,481,283	826,810	261,207	-	**43,643,399**
Financial assets held for trading and at fair value through profit or loss	-	-	-	-	-	158,491	**158,491**
Financial instruments: available-for-sale and held-to-maturity	3,371,208	298,183	2,382,579	2,481,925	806,020	139,162	**9,479,077**
Other assets	-	-	-	-	-	3,348,869	**3,348,869**
Total assets	**29,675,625**	**18,487,086**	**3,863,862**	**3,308,735**	**1,067,227**	3,856,911	**60,259,446**
Amounts due to banks and financial institutions	428,163	1,127,104	4,505	-	-	-	**1,559,772**
Amounts due to customers	21,858,204	11,057,682	10,769,812	4,834,675	190,458	-	**48,710,831**
Debt securities issued	242,067	1,151,570	1,262,168	15,690	-	-	**2,671,495**
Other liabilities	2,411,071	-	-	-	-	562,319	**2,973,390**
Total liabilities	**24,939,505**	**13,336,356**	**12,036,485**	**4,850,365**	**190,458**	**562,319**	**55,915,488**
Equity	-	-	-	-	-	4,343,958	**4,343,958**
Total liabilities and equity	**24,939,505**	**13,336,356**	**12,036,485**	**4,850,365**	**190,458**	**4,906,277**	**60,259,446**
BALANCE SHEET GAP	**4,736,120**	**5,150,730**	**(8,172,623)**	**(1,541,630)**	**876,769**	**(1,049,366)**	-
OFF-BALANCE SHEET ITEMS							
Interest rate transactions:							
Receivables	4,640,285	7,319,507	1,915,471	380,600	85,423	4,217,052	18,558,338
Liabilities	4,624,755	7,080,826	1,829,676	321,602	57,932	4,341,796	18,256,587
OFF-BALANCE SHEET GAP	**15,530**	**238,681**	**85,795**	**58,998**	**27,491**	**(124,744)**	**301,751**
TOTAL GAP	**4,751,650**	**5,389,411**	**(8,086,828)**	**(1,482,632)**	**904,260**	**(1,174,110)**	**301,751**

Assets, liabilities and off-balance sheet items classified in accordance to the criterion of the interest rate exposure as at 31.12.2016 (restated)	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	2,972,719	-	-	-	-	179,474	**3,152,193**
Amounts due from banks and financial institutions	996,550	-	-	-	-	-	**996,550**
Loans and advances to customers	25,087,262	20,558,789	1,389,178	302,505	72,393	-	**47,410,127**
Financial assets held for trading and at fair value through profit or loss	-	-	-	-	-	174,383	**174,383**
Financial instruments: available-for-sale and held-to-maturity	4,727,006	160,677	1,319,839	4,857,742	711,927	128,577	**11,905,768**
Other assets	-	-	-	-	-	2,882,000	**2,882,000**
Total assets	**33,783,537**	**20,719,466**	**2,709,017**	**5,160,247**	**784,320**	3,364,434	**66,521,021**
Amounts due to banks and financial institutions	209,898	2,005,175	39,075	-	-	-	**2,254,148**
Amounts due to customers	20,740,152	12,791,929	13,306,116	5,370,483	897,256	-	**53,105,936**
Debt securities issued	211,804	1,175,778	1,199,432	17,922	-	-	**2,604,936**
Other liabilities	1,878,243	-	-	-	-	1,906,651	**3,784,894**
Total liabilities	**23,040,097**	**15,972,882**	**14,544,623**	**5,388,405**	**897,256**	1,906,651	**61,749,914**
Equity	-	-	-	-	-	4,771,107	**4,771,107**
Total liabilities and equity	**23,040,097**	**15,972,882**	**14,544,623**	**5,388,405**	**897,256**	**6,677,758**	**66,521,021**
BALANCE SHEET GAP	**10,743,440**	**4,746,584**	**(11,835,606)**	**(228,158)**	**(112,936)**	**(3,313,324)**	**-**
OFF-BALANCE SHEET ITEMS							
Interest rate transactions:							
Receivables	4,634,583	8,078,387	1,825,951	1,234,802	153,283	6,151,897	**22,078,903**
Liabilities	5,379,107	9,005,702	1,850,957	1,259,827	46,844	6,103,301	**23,645,738**
OFF-BALANCE SHEET GAP	**(744,524)**	**(927,315)**	**(25,006)**	**(25,025)**	**106,439**	**48,596**	**(1,566,835)**
TOTAL GAP	**9,998,916**	**3,819,269**	**(11,860,612)**	**(253,183)**	**(6,497)**	**(3,264,728)**	**(1,566,835)**

5. Risk 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 Bank concludes 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 Bank determines the limits of maximal exposure for banks. The percentage limits of particular types of transactions are determined within these limits.

6. Hedge accounting

The Bank 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 2017, amounts to PLN -64 820 thousand. Cash flows relating to hedged transactions will be realised from 1 January 2018 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 2017 and 2016 are as follows:

	31.12.2017	
	Receivables PLN thousand	Liabilities PLN thousand
Maturity dates of CIRS hedging transactions:		
up to 1 month	352,635	356,720
over 1 month to 3 months	856,170	891,800
over 3 months to 1 year	954,750	886,313
over 1 year to 5 years	9,739,681	9,417,408
Total CIRS hedging transactions	**11,903,236**	**11,552,241**

	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**

The fair value of cash flow hedging instruments as at 31 December 2017 and 2016 is presented below. As the fair value of the hedging instrument its carrying value is given.

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
CIRS - positive valuation	473,381	2,348
CIRS - negative valuation	(223,636)	(1,598,926)

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

	01.01.2017-31.12.2017 PLN thousand	01.01.2016-31.12.2016 PLN thousand
Accumulated comprehensive income at the beginning of the period (gross)	**(116,805)**	**(131,549)**
Gains/(losses) on hedging instrument	2,011,838	(274,881)
Amount transferred from other comprehensive income to income statement, of which:	(1,975,058)	289,625
interest income	(247,986)	(242,979)
gains/(losses) on foreign exchange	(1,727,072)	532,604
Accumulated comprehensive income/ (loss) at the end of the period (gross)	**(80,025)**	**(116,805)**
Tax effect	15,205	22,194
Accumulated comprehensive income/ (loss) at the end of the period (net)	**(64,820)**	**(94,611)**
Ineffective cash flow hedges recognised through profit and loss	**(8,076)**	**(6,736)**
Effect on other comprehensive income in the period (gross)	**36,780**	**14,744**
Deferred tax on cash flow hedge	(6,988)	(2,801)
Effect on other comprehensive income in the period (net)	**29,792**	**11,943**

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 2017 and 2016 is presented in the following table:

	31.12.2017 PLN thousand	31.12.2016 PLN thousand
Fair value of IRS transactions constituting accounting hedges under the fair value hedge of retail customer deposits against interest rate risk	8,929	10,552

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:

	01.01.2017 - 31.12.2017		01.01.2016 - 31.12.2016	
	Of the hedging instrument	Of the hedged item	Of the hedging instrument	Of the hedged item
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gains	-	-	-	696
Losses	1,622	394	2,660	-
Total	**1,622**	**394**	**2,660**	**696**

From 1 January to 31 December 2017 the Bank recognized amortization of changes in the fair value of the hedged item in the amount of PLN 456 thousand (PLN 1,391 thousand for the period from 1 January to 31 December 2016).

7. Capital management

The primary objective of capital management strategy in the Bank is to have an adequate level of capital hedging the taken risk. 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 complies with the applicable legal regulations and set strategic goals. Within preferred capital structure, Getin Noble Bank assumes maintaining the structure with prevailing share of the core capital (Tier 1), which is essential to meet the requirements specified in the *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms* (CRR).

Total capital ratio is a measure of the capital adequacy, which expresses the ratio of own funds (after mandatory reductions) to the sum of assets and off-balance sheet items weighted by risk. The capital ratio assigns the percentage weights to assets and off-balance sheet items according to the degree of credit risk, market risk, currency risk or interest rate risk.

Regarding the preferred capital structure, Getin Noble Bank S.A. assumes having a structure with the majority share of basic funds (Tier1), which is important in meeting the requirements set out in the *Regulation of the European Parliament and Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms* (CRR).

The capital requirements applicable to banks are determined by the following components:

- minimum values of capital ratios at the regulatory level of Pillar I, i.e. for the total capital ratio (TCR) level of 8%, for Tier1 capital ratio (T1) 6% and for the Common Equity Tier1 (CET1) ratio of 4.5%,
- additional capital domains, so-called add-on that apply to Filar II,
- the requirement of a combined buffer – defined in the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system.

As at 31 December 2017 the applicable for Getin Noble Bank S.A. capital ratios for the Bank were the following:

- Tier 1 Capital ratio (CET 1): 8.79%,
- Total capital ratio (TCR): 11.22%.

The capital ratios required at the end of 2017 take into account:

- individual additional capital requirements for the Bank's own funds to cover the risk associated with the portfolio of foreign currency mortgage loans for households; on the basis of an individual KNF recommendation for Getin Noble Bank S.A. from November 2017, the Bank is required to maintain an additional capital requirement at 1.71 p.p. over the value of the total capital ratio and 1.28 p.p. over the Tier1 capital ratio,

(data in PLN thousand)

- safety buffer at the level of 1.25 pp in terms of the capital ratio based on Tier1 capital (CET1) and total capital ratio (TCR) – resulting from the provisions of the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system,
- the buffer of other systemically important institution in the amount of 0.25% of the total risk exposure amount calculated in accordance with art. 92 par. 3 of the CRR Regulation – the Polish Financial Supervision Authority based on the assessment carried out in accordance with art. 39 par. 1 of the *Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system*, imposed on Getin Noble Bank S.A. on an individual and consolidated level.

Getin Noble Bank S.A. at the end of 2017 obtained the capital adequacy ratios meeting the minimum specified above.

CAPITAL RATIOS BANK	31.12.2017		Surplus above the requirement p.p.
	Requirement of a combined buffer	Actual	
Tier 1 Capital ratio	8.79%	9.38%	0.59
Total capital ratio	11.22%	12.43%	1.21

After taking into account additional recommendations of the Polish Financial Supervision Authority regarding the maintenance until 31 December 2017 of the so-called "dividend buffer" in the amount of 3% (Tier1) and 4% (TCR) respectively, the recommended level of capital ratios as at 31 December 2017 was for the Bank:

- Tier 1 Capital ratio (CET 1): 11.79%,
- Total capital ratio (TCR): 15.22%.

As at 31 December 2017 the Bank did not meet the requirements recommended by the KNF, which was caused by the implementation in the IV quarter of 2017 the regulatory changes related to:

- the entry into force of the Ordinance of the Minister of Development and Finance of 25 May 2017 regarding higher 150% risk weights for exposures secured by mortgages on real estate,
- recommendation of the Polish Financial Supervision Authority of 24 October 2017 in respect of subordinated bonds issued, so that the minimum nominal value of one subordinated bond was at least PLN 400 thousand.

The Bank pursuant to Art. 60 par. 1 of the Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system, prepared and applied to the KNF for approval of the Capital Protection Plan.

The Plan sets out additional activities in relation to the ones indicated in the PPN that the Bank intends to take to increase its own funds to the level ensuring coverage of the requirements of the combined capital buffer; they are based on two key assumptions consistent with the concept adopted in PPN, i.e.: optimization of current financial results, while minimizing the period of non-compliance with capital requirements and concentration on building a capital base based on the highest quality funds (Tier 1). The Capital Protection Plan assumes achieving the minimum levels of the combined capital buffer by the end of 2019.

8. Capital ratio

As at 31 December 2017 and 2016 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.

	31.12.2017 PLN thousand	31.12.2016 (restated) PLN thousand
Tier 1 Capital	4,090,529	4,626,444
Tier 2 Capital	1,329,687	1,363,985
TOTAL OWN FUNDS	**5,420,216**	**5,990,429**
TOTAL CAPITAL REQUIREMENTS	**3,488,263**	**3,181,719**
CAPITAL RATIOS		
Tier 1 Capital ratio	9.4	11.7
Total capital ratio	12.4	15.1

Implementation in the IV quarter of 2017 the regulatory changes related to the entry into force of the Ordinance of the Minister of Development and Finance of 25 May 2017 regarding higher 150% risk weights for exposures secured by mortgages on real estate, as well as recommendation of the Polish Financial Supervision Authority of 24 October 2017 in respect of subordinated bonds issued, so that the minimum nominal value of one subordinated bond was at least PLN 400 thousand, adversely affected the level of capital adequacy of the Bank, as a result of which the Bank has changed some of the assumptions in the PPN.

The Bank pursuant to Art. 60 par. 1 of the Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system, prepared and applied to the KNF for approval of the Capital Protection Plan.

The Plan sets out additional activities in relation to the ones indicated in the PPN that the Bank intends to take to increase its own funds to the level ensuring coverage of the requirements of the combined capital buffer; they are based on two key assumptions consistent with the concept adopted in PPN, i.e.: optimization of current financial results, while minimizing the period of non-compliance with capital requirements and concentration on building a capital base based on the highest quality funds (Tier 1).

As at 31 December 2017 and 2016 the portfolio of the Bank did not contain any receivables that could be qualified as exceeding the concentration limits, therefore the Bank estimates the concentration risk to be not significant.

9. Compliance risk

The risk of compliance is understood as the risk of adverse effects as a result of non-compliance with the laws of the Bank (in particular laws, regulations, resolutions), internal regulations, or internally adopted standards, policies or codes of conduct.

In 2017 the Bank took steps to adapt to the new compliance principles set out in the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks (Dz. U.2017.637) and KNF H Recommendation regarding the internal control system in banks (Dz.Urz.KNF.2017.7.7).

The compliance risk management includes risk identification, assessment, monitoring and controlling, as well as reporting.

In the process of compliance risk identification the Bank 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 nonconformity 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, Quality and Processes Committee, President of the Management Board, the Management Board, Audit Committee 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 Getin Noble Bank S.A. Capital Group.

Signatures of the Getin Noble Bank S.A. Management Board Members:

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Artur Klimczak
President of the Management Board

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Jerzy Pruski
Vice President of the Management Board

____
Karol Karolkiewicz
Member of the Management Board

____
Maciej Kleczkiewicz
Member of the Management Board

____
Marcin Kuksinowicz
Member of the Management Board

____
Marcin Romanowski
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, 23 April 2018