Directors' report on activities of the

GETIN NOBLE BANK S.A. CAPITAL GROUP
and
GETIN NOBLE BANK S.A.

in the year 2016

Warsaw, March 2017

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The Directors' Report on activities of the Getin Noble Bank S.A. Capital Group in the year 2016 also includes the information required for the Directors' Report on activities of Getin Noble Bank S.A.

1. Activities of the Bank and the Group in 2016

In 2016 Getin Noble Bank S.A. („the Bank", „GNB", „the Issuer") implemented a new Strategy for years 2016-2018 and *"Plan for a sustainable improvement in profitability of Getin Noble Bank S.A. The Recovery Program for 2016-2019"* ('the Plan', 'PPN') being the recovery program within the meaning of Article 142 of the Banking Law.

The Bank is implementing successively the new Strategy, including the redevelopment of retail banking, maintaining the leading position in the automotive segment, and digitizing of services, which will contribute to the Bank's continued business efficiency and thus improve its profitability. The main activities implemented in 2016 include:

- lowering of cost of deposits in relation to the market – the Bank successively reduces the margin paid for acquiring new deposits,
- transformation of service network based on new customer segmentation – implementation of initiatives resulting from product strategy, organisation of products offered in individual segments, sales network optimization, quality improvement, optimization of internal and external communication, development of mobile banking,
- continuation of work with the Getin Leasing S.A. Group, which includes both debt purchase as well as brokerage in sale of car loans,
- development of activity in the sector of local government units (JST).

One of the main objectives pursued within the implementation of the Strategy of Getin Noble Bank S.A. was strengthening of the Bank's and the Group's capital position in line with the guidelines of the Polish Financial Supervision Authority. As at 31 December 2016 the Bank maintained the required capital ratios in excess.

1.1. Significant factors affecting the results of the Bank and the Group

Plan for a sustainable improvement in profitability

As a result of significant external burdens that were not directly related to the Bank's operating activity, but significantly affected the financial results for the last quarter of 2015, Getin Noble Bank S.A. applied to the Polish Financial Supervision Authority in March 2016 for approval *of Plan for a sustainable improvement in profitability of Getin Noble Bank S.A.,* being the recovery program within the meaning of Article 142 of the Banking Law. After completing the submitted document with additional information required by the Supervision Authority, on 23 September 2016 the Polish Financial Supervision Authority approved the assumptions of the Plan for the years 2016-2019.

With the approval of the Plan submitted by the Bank, the Polish Financial Supervision Authority has identified several core parameters that will be monitored during the PPN implementation, i.e.: net financial result of the Bank, interest margin, level of loan write-offs, level of capital adequacy ratio and implementation of the Strategy. The Bank submits quarterly reports on the implementation of the Plan to the Polish Financial Supervision Authority.

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

In 2016 the net profit of Getin Noble Bank S.A. amounted to PLN 109.0 million and was higher than the figure achieved in 2015 by PLN 96.2 million. The level of financial result achieved by Getin Noble Bank S.A. in 2016 was a result of the following events:

Events that have a positive impact on the Bank's performance:

- sale of 50.72% shares in Getin Leasing S.A. – the Bank generated a net profit of PLN 134.1 million,
- sale of 29.97% shares in Noble Funds TFI S.A. – the Bank generated a net profit of PLN 35.6 million,
- settlement of acquisition of Visa Europe Ltd. by Visa Inc. – the Bank recognized in the income statement the amount of PLN 18.1 million,
- sale of 10.93% shares in Biuro Informacji Kredytowej S.A. – the Bank generated a net profit of PLN 39 million,
- lowering of cost of financing customer deposits – in 2016 an interest expense on amounts due to customers decreased by nearly PLN 0.3 billion, i.e. by 15.7%.

Events that have a negative impact on the Bank's performance:

- contribution to the Bank Guarantee Fund due to the bankruptcy of BS in Nadarzyn – the financial result before tax was charged with the amount of PLN 7.7 million,
- recognition of write-offs for impairment of investments in subsidiaries and associates for the total amount of PLN 55.2 million,
- payment of tax on certain financial institution in the amount of PLN 38.3 million (for February and March 2016) - starting from April 2016 the Bank is exempted from payment of tax due to the implementation of the recovery program,
- decrease in revenues from sale of investment products.

In 2016 the Getin Noble Bank S.A. Capital Group generated a net loss in the amount of PLN 38.6 million. This result was lower than the figure achieved in 2015 by PLN 93.0 million. The level of financial result achieved by the Group in 2016 was a result of the following events:

Events that have a positive impact on the Group's performance:

- sale of 50.72% shares in Getin Leasing S.A. – the Group generated a net profit of PLN 39.7 million,
- settlement of acquisition of Visa Europe Ltd. by Visa Inc. – the Group recognized in the income statement the amount of PLN 18.1 million,
- sale of 10.93% shares in Biuro Informacji Kredytowej S.A. – the Group generated a net profit of PLN 39 million,
- lowering of cost of financing customer deposits – in 2016 an interest expense on amounts due to customers decreased by nearly PLN 0.3 billion, i.e. by 18.7%.

As a result of a sale of 29.97% minority shares in Noble Funds TFI S.A. the Group generated a profit before tax of PLN 50.2 million, which was recognized directly in the Group's equity as a transaction with non-controlling shareholders.

Events that have a negative impact on the Group's performance:

- contribution to the Bank Guarantee Fund due to the bankruptcy of BS in Nadarzyn – the financial result before tax was charged with the amount of PLN 7.7 million,
- recognition of write-offs for impairment of investments in associates and non-current assets held for sale for the total amount of PLN 34.8 million,
- payment of tax on certain financial institution in the amount of PLN 38.3 million (for February and March 2016) - starting from April 2016 the Bank is exempted from payment of tax due to the implementation of the recovery program,
- decrease in revenues from sale of investment products.

Capital adequacy

An important element that influenced the Bank and the Group's financial results in 2016 was actions related to raising the capital base in order to achieve higher levels of capital ratios in the amount expected by the Polish Financial Supervision Authority.

Expected level of capital ratios includes:

- a security buffer of 1.25 p.p. as regards the capital ratio based on the Tier 1 capital (CET 1) and the total capital ratio (TCR) – resulting from the provisions of the *Act of 5 August 2015 on macro-prudential oversight of the financial system and crisis management in the financial sector*,
- individual additional capital requirements for the Bank's own funds in order to secure the risk arising from foreign currency mortgage loans to households; on the basis of the individual recommendation of the Polish Financial Supervision Authority for Getin Noble Bank S.A. in October 2016, the Bank is obliged to maintain an additional capital requirement of 1.89 p.p. (1.87 p.p. for the Group) above the value of the total capital ratio and 1.42 p.p. (1.40 p.p. for the Group above the value of the Tier I capital ratio,
- The Polish Financial Supervision Authority on the basis of an assessment in accordance with Art. 39 par. 1 of *the Act of 5 August 2015 on macro-prudential oversight of the financial system and crisis management in the financial sector* imposed on Getin Noble Bank S.A. on a standalone and consolidated basis a buffer of other systemically important institution in the amount 0.25% of the total risk exposure calculated in accordance with Art. 92 par. 3 of the CRR Regulation.

The required ratios at the end of 2016 were:

for the Bank:

- Tier 1 Capital ratio (CET 1): 11.92%,
- total capital ratio (TCR): 15.39%.

for the Group:

- Tier 1 Capital ratio (CET 1): 11.90%,
- total capital ratio (TCR): 15.37%.

Getin Noble Bank S.A. as at the end of 2016 achieved the capital adequacy ratios above the levels required by the Polish Financial Supervision Authority. This was possible thanks to the consistent implementation of the capital plan, aimed at maintaining capital adequacy at a level not lower than the supervisor's expectations.

The most important actions undertaken by the Bank in 2016 in order to achieve and maintain the required capital ratios are as follows:

1. Reduction of the Bank's capital investments in subordinated entities – sale of shares in two companies in which the Bank had significant capital exposure, i.e.:
   - sale of 50.72% shares in Getin Leasing S.A.,
   - sale of 29.97% shares in Noble Funds TFI S.A.
2. The ongoing process of merging Noble Funds TFI S.A. and Open Finance TFI S.A. The proposed merger date is the first half of 2017. Due to the planned transaction, the Bank expects the loss of control in Noble Funds TFI S.A.
3. Issue of subordinated debt fulfilling criteria for inclusion in the Tier 2 capital – PLN 340 million was issued in 2016, of which PLN 300 million was included in the Bank's own funds under Tier 2 in 2016 and the remaining PLN 40 million in January 2017.
4. Reduction of risk-weighted assets.

The implemented measures enabled the following capital ratios to be achieved at the end of December 2016:

CAPITAL RATIOS OF THE BANK	31.12.2016		Buffer above recommended level
	required	achieved	
Tier 1 capital ratio	11.92%	12.31%	0.39 p.p.
Total capital ratio	15.39%	15.71%	0.32 p.p.

CAPITAL RATIOS OF THE GROUP	31.12.2016		Buffer above recommended level
	required	achieved	
Tier 1 capital ratio	11.90%	12.31%	0.41 p.p.
Total capital ratio	15.37%	15.69%	0.32 p.p.

Cost of financing

The Bank is successively pursuing one of the key strategic goals, i.e. lowering the cost of financing and reducing the distance to comparable banks. The cost of financing systematically decreases as well as the difference between the Bank and the average for the comparative group of Polish banks. The total cost of obtaining customer deposits amounted to 2.3% in 2016, i.e. by 0.5 p.p. less than in 2015. The cost of acquiring new term deposits from retail clients fell from 2.29% in December 2015 to 1.94% in December 2016. In 2016 the balance of amounts due to customers decreased by PLN 2.7 billion (i.e. by 4.8%), and the decrease in the cost of financing translates directly into the decrease in interest expense on customer deposits. In 2016 the Group's interest expense decreased by PLN 375 million compared to 2015, which translates into an improvement in net interest income – it reached PLN 1.3 billion in 2016, an increase of more than 10% comparing year to year.

Internal conditions

The main factors affecting the results of the Bank and the Group in 2016 included the following:

- Reduction of the scale of operations – in line with the assumptions of the PPN in 2016 the Bank implemented a process of optimizing its balance sheet structure, among others, by reducing the scale of operations and consequently reducing the value of total assets. In 2016 the total assets decreased by PLN 4.9 billion to PLN 66.9 billion. Deleveraging of the Bank's activities relating to the change in the balance sheet structure is primarily achieved by lowering the volume of mortgages to other loan categories, i.e. cash loans as products with higher margin and faster turnover, allowing to improve the profitability of the loan portfolio and increase the ability to manage the Bank's balance sheet. In 2016 the balance of mortgage loans decreased by more than PLN 1 billion. The sale of loan was also limited, which was connected with the process of raising capital ratios – loan sales in 2016 amounted to PLN 7.3 billion, i.e. 24% less than in 2015.
- Limiting the sale of long-term loans – the Bank has directed the sale of loans towards short-term loans (retail loans and purchase of lease receivables). Mortgage sales were reduced to a minimum – it represented only 0.2% of lending,
- The gradual decrease in the cost of acquiring customer deposits – the cost of acquiring customer deposits amounted to 2.3% in 2016 and decreased in comparison to the cost incurred in 2015 by 0.5 p.p.,
- Strengthening the liquidity position – the levels of supervisory liquidity measures in 2016 increased – the supervisory liquidity measure M1 (Short-term liquidity gap) increased by 5.5% to PLN 5.6 billion, and the LCR ratio increased in 2016 by 21 p.p. to 115%. Maintaining of higher liquidity levels, however, requires investment in lower-yielding financial assets,

- Transformation of service network based on new customer segmentation – implementation of initiatives resulting from product strategy, organisation of products offered in individual segments, sales network optimization, quality improvement, optimization of internal and external communication, development of mobile banking – positive quality changes in the Bank have been independently audited in the 15th edition of the ranking of *Newsweek Friendly Bank*, winning in the category of "Bank for Kowalski". Getin Noble Bank S.A. was also awarded in the category "Internet Banking", taking third place. The ranking is based on a "mysterious customer" survey conducted by auditors from Millward Brown research company. The basis for the assessment is the quality of service, the functionality and availability of services, and the overall impression of the contact with the financial institution. The success of the Bank is the result of the strategic initiatives implemented in 2016 relating to customer segmentation, process and procedure optimization, new service standards in branches and call centres, development of internet and mobile banking, and optimization of key areas responsible for communication with customers.
- Reduction of operating expenses – according to the assumptions of the PPN the Bank implements cost optimization initiatives – the Bank's operating expenses in 2016 (excluding the costs of BGF, PFSA and BSF) were lower by PLN 59 million (i.e. by 7.8%). It resulted in improved C/I ratio, which in 2016 (excluding the additional costs for BGF and BSF) amounted to 48%.

Retail banking

One of the main initiatives that the Bank has identified in the PPN and is consistently implementing is the transformation of retail banking. Planned major strategic initiatives to be implemented during the period covered by the PPN in the field of retail banking are:

- sorting out and developing of the product offer (in 2016 the Bank withdrew 36 ineffective promotions and products),
- integration and optimization of the branch network,
- development of channel competences,
- new culture of the Retail Banking Division.

Among the actions already completed are the following:

- Implementation of segmentation and service model for each customer group – as a result of the segmentation as at the end of December 2016 the Bank identified 28 thousand of customers in the Noble segment and 1.6 thousand of customers in the Noble Private Banking segment,
- Process optimization and simplification of current account opening procedures – integration of a current account agreement, Customer Information Card, Debit Card and Saving Account Agreement (reduction of number of signatures on several documents to 1 customer signature),
- Service Standards in branch network and Call Centre – the effect of the action is to improve the quality of current account sales, as confirmed by Mystery Shopper,
- Constant monitoring of service quality,
- Optimizing of key areas of the customer communication process – the decision to merge into a single unit the outgoing and incoming Call Centre and to centralize the complaint units; creating a brand book and implementing a standard of answers given to the Bank's customers,
- Modification of sales incentive system,
- Training and certification for all sales channels – product knowledge training, sales and customer service,
- Improving of internal communication by providing an internal GetSpace forum,
- Improving of selected Internet Banking functionalities,

- Implementation of new Mobile Banking,
- Launching a change of image in the media,
- Start work on simplifying procedures.

As part of the initiatives launched as well as those ongoing and planned for launch in 2017, the following can be identified:

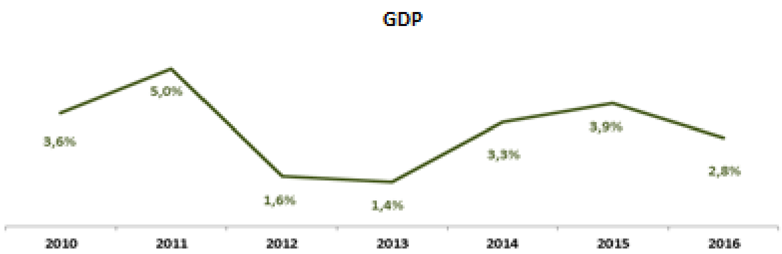
- Implementation of new acquisition products,
- Sales network optimization,
- Implementation of sales staff evaluation system,
- 360º customer view and contextual information for sales channels – unifying personal information about the customer,
- Further improvement of internal communication and knowledge and information management,
- Creating an image of a trustworthy and efficiently working Bank,
- Further simplifying of customer service procedures,
- Optimization of further product processes,
- Dynamic development of remote channels – Internet and Mobile Banking, taking into account the omnipresence of the main processes,
- Intensive development of management and operational information,
- Changes related to IT tools in sales channels.

Positive quality changes in the Bank have been independently audited in the 15th edition of the ranking of *Newsweek Friendly Bank*, winning in the category of "Bank for Kowalski". Moreover, the GNB was also awarded in the category "Internet Banking", taking third place.

External conditions

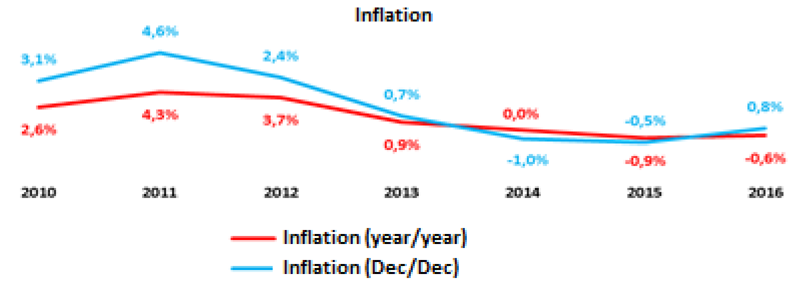
Macroeconomic situation

According to preliminary data of the Central Statistical Office, the pace of economic growth in Poland in 2016 was slower than in the previous year – the gross domestic product in 2016 was actually higher by 2.8% compared to the previous year. A year earlier, GDP was at 3.9%.

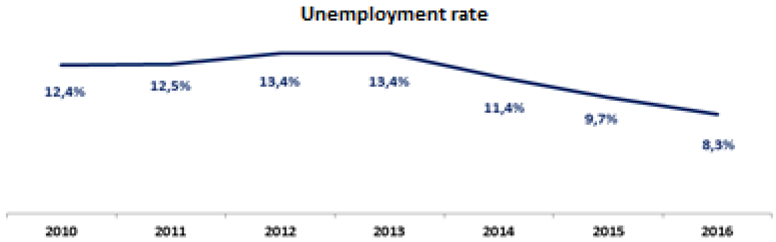


Total consumption was 3.6% higher than the year before, including 3.6%-growth in the household sector. Gross capital expenditures decreased by 5.5% (vs. 6.1% growth in 2015) and the investment rate in 2016 was 18.5% (compared to 20.1% in 2015). Domestic demand was 2.8% higher than a year ago and gross value added in the national economy rose at a slower pace than in the previous year (2.7% vs. 3.8%). In industry, gross value added increased by 3.5%, while in construction decreased by 11.9%.

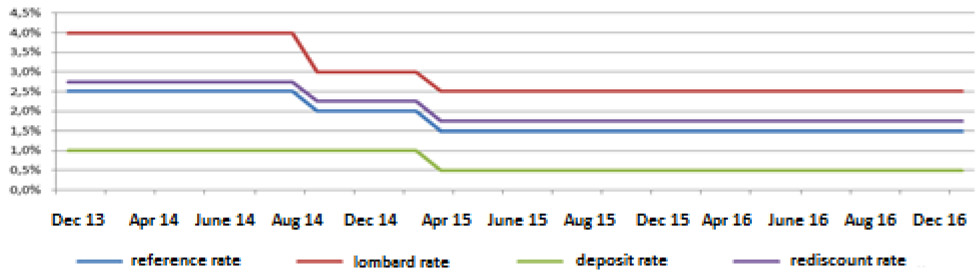
Prices of consumer goods and services in 2016 were lower than a year ago by 0.6% (compared to a decrease of 0.9% in 2015). The average annual price index of consumer goods and services in 2016 was well below the one assumed in the Budget Act. Since mid-2016 the scale of drop in consumer prices has gradually declined. In December 2016 for the first time in more than two years, consumer prices rose in comparison with the same month of the previous year.



The registered unemployment rate was 8.3%, i.e. it increased by 0.1 p.p. compared to the previous month and was lower by 1.4 p.p. than in December 2015.



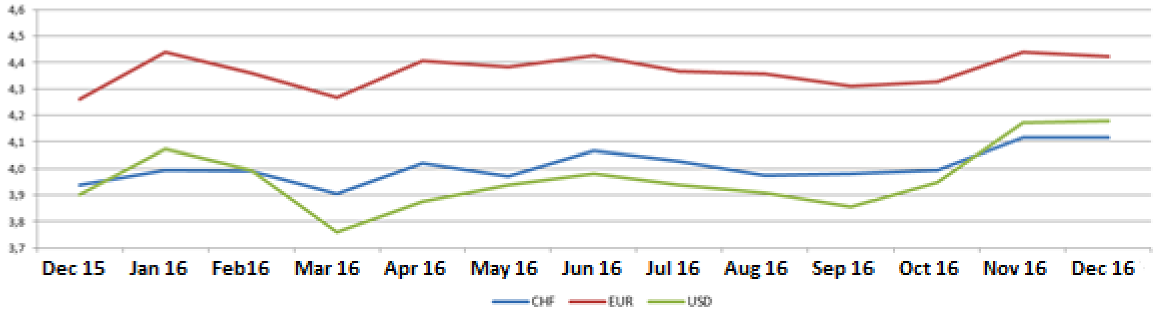
Following a series of interest rate cuts by the Monetary Policy Council in the fourth quarter of 2014 and the first quarter of 2015, since March 2015 the level of basic interest rates has remained unchanged.



Currency market

At the turn of 2015 and 2016 significant changes in the PLN/EUR exchange rate were observed. In the second quarter of 2016, the banking sector in Poland was affected by financial turmoil. Especially dynamic was the end of the first half of the year, which brought significant changes in foreign exchange rates strengthened by the referendum in the UK (Brexit). The victory of the supporters for leaving the EU has caused big movements on the main currency pairs, and the Polish zloty has definitely fallen to major currencies, including the Swiss franc. In subsequent months the Polish currency systematically recovered losses, supported by interventions carried out by European central banks, the Swiss Central Bank and the Bank of England. At the end of 2016 there was another series of currency exchange rate increases. The result of the presidential elections in the United States in November 2016 influenced the appreciation of the US dollar. The markets reacted quite violently, but after a few days the level of the exchange rates stabilized. The EUR exchange rate reached the maximum level for the four years preceding that date - 4,5035 on 6 December 2016. The USD exchange rate reached its maximum level on 20 December 2016 - 4,2493, while the CHF rate on 2 December 2016 - 4,1705. At the end of December 2016 the EUR exchange rate was 4.4240, CHF 4.1173 and USD 4.1793.

AVERAGE EXCHANGE RATES AT THE END OF EACH MONTH IN 2016



Banking sector

A new tax on financial institutions imposed on banks puts a lot of pressure on the banking sector. Taxation of bank assets directly affected the profitability of the banking sector, and in the longer term may result in a reduction in lending inclination. Increasing contributions to the Bank Guarantee Fund, the Borrower Support Fund and the considered plans to help the so-called Franc-borrowers are another potential factor negatively influencing the development prospects of Polish banking sector.

Regulatory framework

Since February 2016 banks in Poland are charged with tax on certain financial institutions calculated based on the sum of assets less PLN 4 billion, the value of own funds and purchased treasury bonds; it is not considered to be tax deductible for purpose of corporate income tax. Getin Noble Bank S.A. paid the amount of PLN 38.3 million of tax for February and March 2016, that was included in the current period costs.

In 2016 the contribution to the Bank Guarantee Fund increased – compared to 2015 the total fee rate for the BGF increased from 0.239% to 0.246% of the total risk exposure amount.

1.2. Significant events and achievements of the Bank and the Group in 2016

Awards and recognitions received

In 2016 Getin Bank took first place in the prestigious ranking of *Newsweek Friendly Bank*, winning in the category of "Bank for Kowalski". Experts, who evaluated the traditional banking, appreciated the kindness, commitment and competence of advisors and effectiveness to perform basic operations. Getin Bank was also awarded in the category "Internet Banking", taking third place. In this area it was assessed ease of navigation through the site, the effectiveness of the channels of contact with the bank and transaction system, as well as new services and functionalities. *Newsweek Friendly Bank* is the most prestigious ranking of the quality of banking services in Poland. First place in the category of traditional banking is promotion of Getin Bank by 13 positions compared to last year's ranking.

Getin Noble Bank was also on the top in the ranking of banks, prepared by the Polish Association of Developers. This is the fourth consecutive edition of the statement, in which Getin was recognised as the best bank crediting housing investments. Developers distinguished Getin Noble Bank for speed in processing of applications, compliance with the initial conditions, flexibility and partner-like approach to the borrowers. The ranking was based on surveys conducted among member companies of the PAD that assessed banks in terms of cooperation in the field of financing and service.

In last year products offered by Getin Noble Bank repeatedly occupied the leading position in the prestigious rankings organized by Rzeczpospolita, Wprost, bankier.pl and totalmoney.pl.

In June 2016 Getin Bank was awarded the "Portfel Roku Wprost 2016" for the best personal account for an individual client. The Jury has identified the Bank's flagship personal account, Getin UP, which combines practical aspects of the offer such as convenience, intuitive solutions and attractive conditions, with a comprehensive package of innovative features that use the potential of new technologies. "Portfel Roku Wprost " is the prize for the best financial industry companies. The aim of the competition, launched and organized by "Wprost" magazine, is to promote the most interesting new financial products and services on the market, and to recognize the most competitive offers, best suited to the needs of consumers.

Getin UP account also was on the top in the ranking of best personal accounts, prepared by analysts of Bankier.pl portal. The top position is due to the attractive terms and conditions of the offer, including no account maintenance fee, card or cash withdrawals. The authors of the ranking looked at the proposals of 21 banks in terms of the needs and expectations of three model customer groups, based on the amount of monthly income. The Getin UP account was also the best in the ranking of bank accounts for a couple. Experts of TotalMoney.pl have checked where and under what conditions the couple can set up a joint personal account. Getin Bank's offer, which was ranked first in the classification, was considered the most advantageous offer on the market. In addition, Getin UP Free account has been recognized as the best personal student account. Among the assessed criteria were, among others, card fee, cash withdrawal cost from all ATMs in the country and bonuses for customers. The Getin Bank's offer for youth customers was unrivalled.

In 2016 the activity of brokerage house Noble Securities S.A. was rewarded by the market with several awards of the Warsaw Stock Exchange and Polish Power Exchange. For the activity on the commodity market the company was honoured by the Polish Power Exchange with platinum megawat awards. The institution appreciated Noble Securities' biggest activity among brokerage houses in the natural gas spot market and the highest level of execution on Asset Market sessions. In addition, the brokerage house has been awarded the "Gold Turnover for its contribution to the launch of the Clearing House".

Noble Securities has also been recognized by the Warsaw Stock Exchange, receiving the Market Leader Award for being the largest market maker in the volume of index futures.

Assessment of financial creditworthiness – ratings

On 2 November 2016 Moody's Investors Service rating agency announced that it has maintained the following Bank's ratings on the current level and downgraded the outlook for long-term deposit rating from stable to negative.

Moody's Investor Service	rating	outlook
Long-term Deposit Rating	Ba2	negative

In February 2016 Fitch Ratings informed on reduction of Long-term foreign currency IDR from 'BB' to 'BB-' and raising the outlook from negative to stable. The above changes were driven primarily by the introduction of new tax burdens in the form of bank tax. Current ratings of the Bank according to Fitch Ratings:

Fitch Ratings	rating	outlook
Issuer Default (IDR)	BB-	stable
Short-term	B	-
National Long Term Rating	BBB- (pol)	stable

2. Organisation of the Group and the Bank's capital investments

2.1. Share capital and shareholding structure of the Bank

As at 31 December 2016 the share capital of Getin Noble Bank S.A. amounts to PLN 2,411,630 thousand and consists of 883,381,106 shares of series A with 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 of the Bank's shares are admitted to public trading on the regulated market.

The ownership structure of significant batches of shares of Getin Noble Bank S.A. as of the date of this report 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
Leszek Czarnecki (directly)	88,208,870	88,208,870	9.99%	9.99%
Indirectly through:				
LC Corp B.V.	337,237,517	337,237,517	38.18%	38.18%
Getin Holding S.A.	66,771,592	66,771,592	7.56%	7.56%
other subordinated entities	1,209,641	1,209,641	0.14%	0.14%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	60,000,000	60,000,000	6.79%	6.79%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	44,181,000	44,181,000	5.00%	5.00%
Other shareholders	285,772,486	285,772,486	32.34%	32.34%
Total	**883,381,106**	**883,381,106**	**100.00%**	**100.00%**

As at the date of approval of the annual report for 2016, the Management Board of Getin Noble Bank S.A. did not have any information on agreements which may result in changes of the proportion in shares held by existing shareholders of the Bank in the future.

As at 31 December 2016 and 2015 the Bank did not hold any own shares.

The Bank does not operate outside the territory of the Republic of Poland.

2.2. Getin Noble Bank S.A. shares on the stock exchange

All shares of Getin Noble Bank S.A. are introduced to public trading on the main market of Warsaw Stock Exchange. The Bank's shares are quoted under the abbreviated name of GETINOBLE and labelled with the code PLGETBK00012.

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

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

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

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

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

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

2.3. Structure of the Capital Group and its changes

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

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

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

2) Company has not yet started operations.

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

All subsidiaries are consolidated using the full method.

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

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

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

Changes in the Getin Noble Bank S.A. Capital Group in 2016 are described in note II.3.1 to the consolidated financial statements for the year ended 31 December 2016.

The Group does not operate outside the territory of the Republic of Poland.

Employment

	31.12.2016	31.12.2015
Employment in full-time equivalents - Bank	4,890.5	5,648.6
Employment in full-time equivalents - Group	5,150.2	6,014.5

Related party transactions

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

Transactions of Getin Noble Bank S.A. and its subsidiaries with related parties are made on an arm's length basis. The details of transactions made by the Group entities with the related parties are presented in the Note II.48 to the consolidated financial statements of the Getin Noble Bank S.A. Capital Group for the 12-month period ended 31 December 2016.

As at 31 December 2016 the total value of Getin Noble Bank S.A. exposure arising from loans granted to its related parties amounted to PLN 1,097 million (PLN 1,678 million at the end of 2015), of which PLN 836 million are subordinated loans granted related to securitization.

3. Scope of activities, products and services of the Bank and the Group entities

3.1. Getin Noble Bank S.A.

Getin Noble Bank S.A. is a universal bank with rich product offer to wide range of customers, including individual clients, small and medium-sized enterprises, local government units, health care entities and large corporations, which is continuously adapted to the preferences and needs of customers. A diverse range of the Bank's products include products in the area of financing, saving and investing and a wide spectrum of additional services offered through various distribution channels, from traditional bank branches to online banking.

Getin Noble Bank S.A. focuses mainly on the sale of cash loans, car loans and corporate loans, as well as on financing of local governments and related entities, communities and housing cooperatives. Mortgage sales in 2016 accounted for only 0.2% of the Bank's loans sold. The practically insignificant level of sales of long-term loans is in line with the Bank's strategy of shortening the maturity of the Bank's assets.

In 2016 the Bank focused on the following key objectives:

- implementing a new quality-oriented banking culture – the main goal of activities started in 2016 is to motivate the sales network to ensure high quality of service and sale of products that build sustainable and repeatable revenue; the superior quality of service and professionalism experienced by customers in all distribution channels is a key objective set by the Bank in the Strategy for 2016-2019; positive quality changes in the Bank were independently audited in the 15th edition of the Newsweek Friendly Bank – Getin Noble Bank S.A. took first place in the category "Bank dla Kowalskiego" and third place in the category of internet banking,

- segmentation of retail customers – the main goal of the process is to segment customers into: mass, affluent and private banking; new customer segmentation approach addresses specific banking service requirements and diversifies banking products and services as customers expect; this form of looking at customers allows the Bank to build lasting relationships and get the first choice bank status,
- sales network optimization – the goal of activities started in 2016 is to optimize the location of branches according to the potential of the micromarket and to change the format of the branch to match the target segments,
- strengthen a stable base of customers who have a constant relationship with the Bank – including by having an active bank account at the Bank,
- optimization of the maturity structure of assets and liabilities – shortening periods for lending activities by selling fast-moving loans and minimizing the sale of long-term mortgages and development of a long-term base of sources of financing – the share in the balance of the Bank's deposits of term deposits with a maturity of at least 12 months was 30.9% as at the end of 2016, and the balance of long-term securities issued by the Bank increased by PLN 0.3 billion in 2016,
- comprehensive service for small and medium-sized companies, public sector entities, healthcare providers and large corporations,
- comprehensive consulting in the field of personal finances of wealthy clients – to a select group of the Bank's customers, supported by the Noble Bank network, are directed specifically dedicated product lines, asset management services, tax and legal support, art banking, brokerage services and concierge.

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

Retail banking

The Bank runs retail banking under Getin Bank brand. Its offer is addressed to people who expect proven products, simplified procedures and fast service. Getin Bank specializes in retail loans, and is also the market leader in car loans. Getin Bank also offers a range of deposit products, saving and personal accounts, individual retirement accounts and savings and investment products. Getin Bank is also an active player in the financial services segment targeted at small and medium enterprises.

<u>Car loans</u>

Car loans are one of the main products offered by Getin Noble Bank S.A. Consecutive year the Bank confirmed to be a leader on the market of car loans.

Car loans are sold through the network of nearly 800 agents actively co-operating with the Bank, car dealers and second-hand dealers, as well as the Bank's own employees. In particular, the Bank provides a full service for Opel and Honda dealers in cooperation with General Motors Poland.

The Bank grants loans for the purchase of all types of vehicles. Loans granted by the Bank additionally include the financing of a wide spectrum of car purchase-related costs, such as costs of additional car equipment, car insurance, borrower's insurance, as well as costs of usage and maintenance of the vehicle financed by a loan. In addition, the Bank offers loan to finance the stock for car dealers and second-hand dealers.

2016 was another year in which a significant complement to the Bank's offer of financing the purchase of vehicles was a car lease, carried out in cooperation with Getin Leasing S.A.

Retail loans

Retail loans are offered in a variety of distribution networks: banking branches, franchise, external operators, and online channels. The Bank has focused its efforts on building sales based on the Bank's existing customers as well as new clients. For each of these groups the Bank used various tools to acquire new sales volumes. For existing customers the Bank applied preference financial terms, product preparation processes (campaign sales) were sorted out, and the importance of remote channels increased by optimizing sales processes in the Call Centre. In order to attract new customers, the Bank uses cooperation with external operators and product changes (preference consolidation loan for external liabilities, low amount loan for new clients, more attractive conditions for the professions). In addition, the Bank focused on providing loans from segments with lower credit risk. Simultaneously, a number of changes were made in the decision-making process as expected by the regulator in the field of lending policy of banks.

As part of the increasing competitiveness of the offer the Bank constantly adjust its products to market requirements. The Bank's main lending products include:

- cash loan,
- consolidation loan,
- credit limits on current account.

Mortgage loans

Mortgage loans are now a marginal part of the new sales mainly in the Bank's own outlets. The share of mortgages in the volume of loans sold in 2016 amounted to only 0.2%. Minimizing the sale of mortgages is one of the elements pursued by Getin Noble Bank S.A. to optimize the structure of the Bank's assets and liabilities.

Deposit offer

In terms of acquiring funds, in 2016 the Bank conducted activities to increase the number of deposit products of a single customer, including through the sale and activation of saving and personal accounts, which are the basis for customer cooperation with the Bank in respect of other deposit products. For this purpose the base was the offer of the flagship product, Getin UP Account and its version for youth and students sold under the name Getin UP Free. The Bank continued activities aiming at increasing customers' activity on their accounts on the basis of the "My Bank" benefit package, where the account activity, measured by regular cash inflows and card usage, resulted in a number of facilities and financial benefits for the client. According to the segmentation assumptions, the Bank has introduced two new personal accounts for clients in the Noble and Noble Private Banking segments. In addition, a special offer for new customers so –called "Na dobry początek" was introduced.

Actions aiming at making more attractive the offer of personal accounts and saving accounts have increased the share of current private funds in the total balance of amounts due to individuals by 3.0 p.p. to 16.4% in 2016.

Term deposits of the retail customers – apart from financing lending – are one of the key drivers of the Bank's liquidity. The Bank focused on acquiring new deposit holders as well as on maintaining existing customers using a diversified offer for particular customer segments. The Bank continued also an activity in obtaining term deposits with the use of Internet banking through a particularly attractive offer for this group of customers. There was also a significant simplification of the offer focusing on products with the most sales results. The cost of deposits has been regularly adjusted through changes in interest rates and actions aimed at changing the structure of fund allocation by customers, preferring less expensive deposit accounts, including the liquidation of deposits into a saving account or personal account.

Term and current deposits are the main source of financing of loan sale development of Getin Noble Bank S.A.

Payment and credit cards

Getin Noble Bank S.A. offers a wide spectrum of credit and debit cards which satisfy a variety of clients. The Bank issues cards under the two main settlement systems i.e. Visa and MasterCard.

Particularly noteworthy is MasterCard DCVC, Display, VISA Simply one and the Platinum and Infinite credit cards tailored to the customer segment.

The cards offer includes also payment cards with images and HCE virtual cards.

In 2016 the Bank implemented the 3D Secure service, which is an additional authorization of online transactions with a one-time SMS code.

Investment products

Since January 2016 the offer of investment products in Getin Noble Bank S.A. is diversified within customer service segments in terms of available asset classes and investment strategies. The Bank offers a broad range of investment opportunities in products of varying levels of risk, i.e. open-end investment funds, life insurance and life insurance funds with one-time and regular premiums, corporate bonds, closed-end investment funds and structured investment products.

The largest customer interest in the Individual Offer and the Noble Bank Personal Banking offerings were products that invest in corporate debt in the form of UFK insurance, subordinated bonds of Getin Noble Bank S.A. and investment deposits. In the Offer of Noble Private Banking the clients, like in previous years, acquired, in particular, investment certificates of open investment funds and corporate bonds.

In 2016 the Bank implemented a number of projects designed to optimize the handling process of investment products, by introducing a unified survey to assess the adequacy, suitability and needs of the retail client, and tailor the process of servicing investment products in this respect to the changing legal environment.

Corporate banking

The Bank is active in the sector of small and medium-sized enterprises (SME), local government units and developers. The Bank is modifying its loan and deposit offer according to the changes in domestic economic situation.

Loan products

The lending products offered by the Bank are as follows:

- loan in current account and in loan account,
- investment loan,
- loan for business entities working with local authorities or state budget entities,
- receivables purchasing for business entities working with local authorities or state budget entities,
- bank guarantees,
- financing of the purchase of property, plant and equipment in the form of lease,
- financing of property development projects,
- financing of public health service entities,
- financing of housing communities,
- credit cards.
- individual loan products dedicated for small and medium-sized enterprises.

<u>Deposit products and current accounts</u>

The main deposit products for corporate entities, local governments and housing communities are:

- Current account "My Company", which includes:
  - adjustment to the needs of corporate clients of 4 current account packages,
  - packages of free electronic transfers,
  - all free electronic transfers to ZUS and US,
  - balance bonus for active customers,
  - available additional services within the account,
  - the ability to apply for debit in the account for active customers.
- Dedicated offer of packages of accounts for Housing Communities and Housing Cooperatives together with a deposit account for investing surplus funds.
- Special offer and ability to negotiate terms of keeping accounts for corporate clients, with a separate Internet access channel providing a range of functionalities necessary for this group of clients.

<u>Treasury products for corporate clients</u>

The treasury products were offered mainly to small and medium-sized enterprises. The offered products enable making basic treasury operations (currency exchange), currency hedging (forward transactions), and attractive placement of financial surpluses. Existing regulations, agreements and procedures allow entering into treasury transactions within the transaction limits or cash collateral. Treasury products for hedging against foreign exchange and interest rate risk applied in many of the large investment projects that the Bank carried out with clients. The Bank's offer of variable treasury products enables it to fully realise the corporate banking development strategy.

3.2. Business areas of the subsidiaries

Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A.

The company conducts activities relating to creating and managing of investment funds, including brokerage in sale and purchase of share units and management of collective securities portfolio, investment portfolios management, in which one or greater number of financial instruments is included (so called asset management), and investment advisory.

Investments Funds

As at 31 December 2016 the company managed the following funds:

- Noble Funds Fundusz Inwestycyjny Otwarty with 8 separated subfunds:
  - Noble Fund Pieniężny,
  - Noble Fund Obligacji,
  - Noble Fund Stabilnego Wzrostu Plus,
  - Noble Fund Mieszany,
  - Noble Fund Akcji,
  - Noble Fund Akcji Małych i Średnich Spółek,
  - Noble Fund Timingowy,
  - Noble Fund Global Return.
- Noble Funds Specjalistyczny Fundusz Inwestycyjny Otwarty with Noble Fund Africa subfund.

Moreover, the company managed 7 closed-end funds and 5 closed-end funds created for specific investors.

Services and products of Noble Funds TFI are offered in banks, brokerage houses, financial advisory companies and insurance companies. The number of distributors amounts to 23 companies as at the end of the year. Very important business partners for the company are insurance companies that offer subfunds of Noble Funds in the form of unit-linked products. At present, the company has signed agreements with 15 insurance companies.

In 2016 the company created 1 fund for retail investors (individuals and corporations).

As at 31 December 2016 the Company managed 19 portfolios of the asset management clients (individuals and corporations), as well as 10 insurance capital funds created by the insurance companies.

Asset Management

Apart from investment fund management, the company provides asset management services. It is addressed to customers prepared to invest at least PLN 2 million. For these customers, the Company offers three standard investment strategies to choose: Strategia Timingowa (Timing Strategy), Strategia Akcyjna (Share Strategy) and Strategia Bezpieczna (Safe Strategy). For customers having assets higher than PLN 5 million individual strategies are offered.

Noble Securities S.A.

Noble Securities S.A. is a brokerage house that offers investors comprehensive services in the capital market. The main areas of activities of the company are:

- brokerage services in trading of financial instruments on all markets of the Warsaw Stock Exchange,
- brokering in commodities and financial instruments on the markets organised by the Polish Power Exchange,
- providing investment banking services,
- providing brokerage services in the field of execution of orders outside the regulated market (OTC market) on contracts for difference (CFD).

Brokerage activities

Noble Securities S.A. acts as agent in trading of financial instruments on the Warsaw Stock Exchange (WSE) and in the Alternative Trading System (ATS) conducted by the WSE – on NewConnect and Catalyst markets. The brokerage house offers attractive conditions for investment in all the financial instruments on the market, with a vast promotion policy and friendly trading system. The company makes available to its customers the team of brokers and advisers who serve clients by telephone, electronically and in person at 18 branches located throughout the country.

The investment advisory service is aimed at those seeking professional support and care of experienced brokers and investment advisers in their capital market operations. The investment strategy covers the financial instruments available in the Noble Securities S.A. service offer, i.e. shares, bonds and derivatives.

To companies whose financial instruments are listed on the main market of the Warsaw Stock Exchange or the ASO NewConnect or Catalyst markets, Noble Securities S.A. offers their services of Issuer Animator or Market Maker. Noble Securities S.A. as a market maker is a leader among companies providing liquidity in the WIG20 futures market with 8% share in this market. In addition, the broker provides liquidity for WIG20 companies, and based on their derivatives. As a part of the market maker service, the company maintains liquidity for 60 securities.

Investment banking

Noble Securities S.A. is an experienced and respected in the market service provider in the field of corporate finance. The Broker supports customers in formulating and implementing the development strategy of their activities financed with a capital from external sources. The company offers consultancy in the field of public and private issue, combined with the introduction of shares on the Warsaw Stock Exchange and the ASO on the NewConnect market. The brokerage house organises public and private bond offering, on the regulated market or the ASO on the NewConnect market. The offer of Noble Securities S.A. also includes a public subscription with pre-emptive rights, issues connected with the transfer of trading companies from NewConnect to the WSE regulated market, service calls and issue of other financial instruments.

Energy market

Offer of Noble Securities S.A. includes comprehensive services of transactions and representing clients on the markets organized by Towarowa Giełda Energii S.A. (Polish Power Exchange).
On the Property Rights Market the company is a broker for its clients in obtaining the status of the Register of Certificates of Origin member, represents in trading transactions and perform actions related to the redemption of certificates of origin.

Forex market

Noble Securities S.A. within its investment offer in the Forex market, makes available to customers several hundred financial instruments, including currency pairs, commodities, as well as global stock indices.

Noble Concierge sp. z o.o.

The company provides prestige concierge services for customers. The company organises events for Getin Noble Banks' clients and Wine&Food Noble Night event. Travel Agency, which operates within the company's structures, offers standard travelling, as well as individual tailored travels.

Sax Development sp. z o.o.

The company provides the Group entities with rental and property management services.

BPI Bank Polskich Inwestycji S.A.

BPI Bank Polskich Inwestycji S.A. does not conduct regular sales of banking products. In 2016 the company continued preparations to transform the bank to mortgage bank.

ProEkspert sp. z o.o.

The Company commenced operations in April 2016. The business of the company is the activity of brokers and insurance agents.

4. Financial situation and results in 2016

4.1. Income statement of the Bank

	2015 PLN thousand	2016 PLN thousand	Change y/y %
Net interest income	1,156,759	1,279,647	10.6
Net fee and commission income	266,077	58,977	(77.8)
Net other result *	146,140	337,840	131.2
Administrative expenses	(1,128,927)	(807,900)	(28.4)
Net impairment allowances on financial assets and off-balance sheet provisions	(416,524)	(687,958)	65.2
Share in profit / (loss) of associates accounted for using the equity method	11,667	(3,388)	(129.0)
Tax on certain financial institutions	-	(38,273)	#
Profit before tax	**35,192**	**138,945**	**294.8**
Income tax	(22,406)	(29,942)	33.6
Net profit	**12,786**	**109,003**	**752.5**

* Net other result includes dividend income, result on financial instruments measured at fair value through profit or loss and net foreign exchange gains, result on investments in subsidiaries, associates and joint ventures, result on other financial instruments, net other operating income and expense.

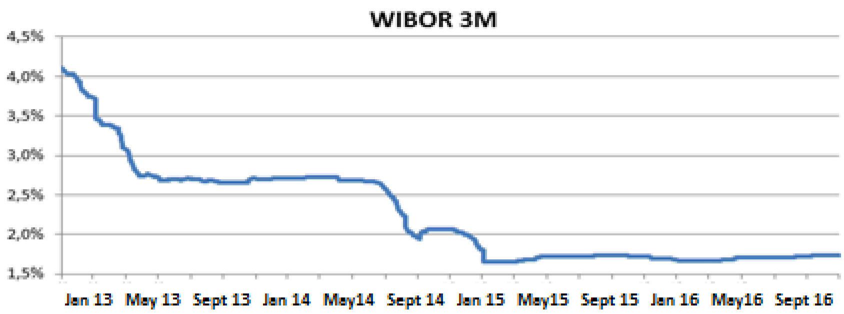
Net interest income

In 2016 the Bank recorded an increase in interest income compared to 2015 by 10.6%. The improvement in net interest income was mainly due to a significant reduction in interest expenses, which in 2016 decreased by nearly 20% compared to costs incurred in 2015. The main component of interest expense is interests on amounts due to customers, which in 2016 were lower by 15.7%.

Interest income declined by 8.0% in 2016 – the main component of interest income is interests from loans granted (82.2% of the Bank's interest income) which dropped by 8.1% in 2016.

An external factor determining the change in interest income and expense is the change in market interest rates, which directly affects the level of interest rates on deposits and customer loans based on market rates adjusted for the margin.

The 3M WIBOR interbank rates, based on which the majority of base-rate loans are based, have fluctuated between 1.67% and 1.73% in 2016 (the average rate in 2016 was 1.70%). The year 2016 was a period of stable 3M WIBOR, which followed the cycle of gradual decline of this rate over the years 2013-2015.



A similar situation occurred with respect to the LIBOR 3M rate for CHF, which in 2016 was at an average level of minus 0.75% that is similarly to 2015.

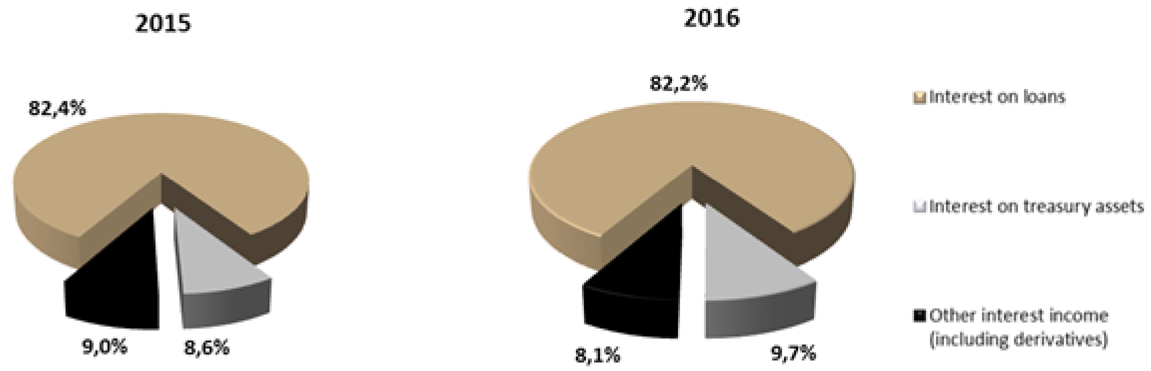
The average profitability of the Bank's loan portfolio (calculated as the ratio of interest income to average net credit exposure) was 4.7% in 2016 and was lower by 0.25 p.p. than the profitability achieved in 2015.

The stabilization of market interest rates also had an impact on the cost of acquiring client deposits. One of the main objectives of Getin Noble Bank S.A. is reducing the cost of financing. The total cost of acquiring client deposits was 2.3% in 2016, i.e. 0.5 p.p. less than in 2015.

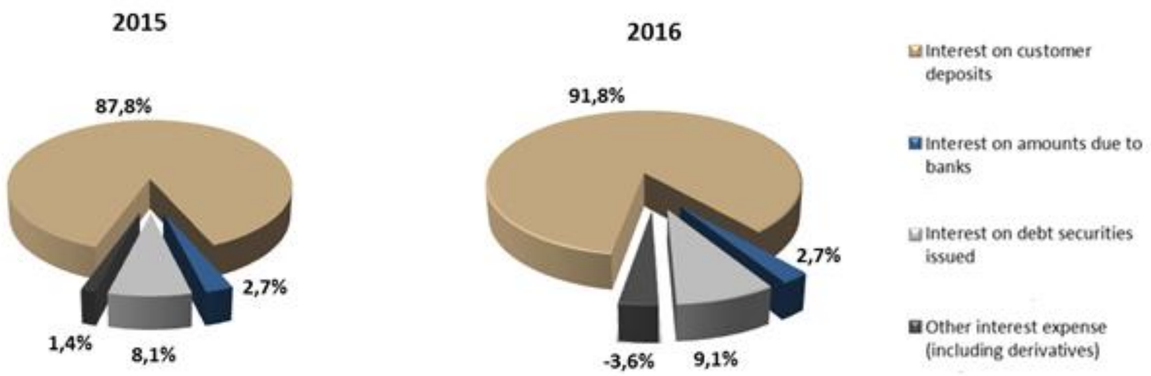
At the end of 2016 the Bank had 20% of customer funds deposited on current and savings accounts and 31% of customer funds with a due date of at least 12 months.

Costs related to the issue of debt securities decreased by 9.3% y/y and accounted for 9.1% of the Bank's interest expenses in 2016.

Structure of interest income in 2015 and 2016



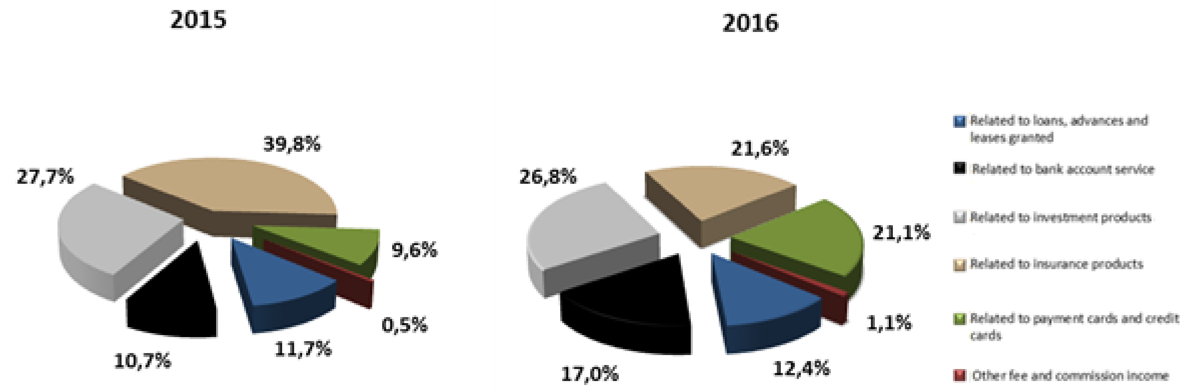
Structure of interest expense in 2015 and 2016



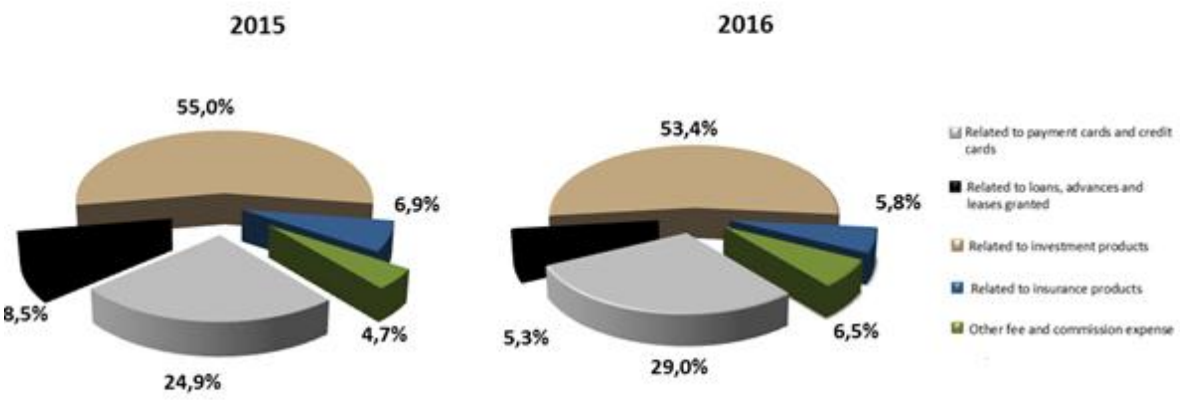
Net fee and commission income

In 2016 net fee and commission income amounted to PLN 59.0 million and was lower than the previous year by PLN 207.1 million (i.e. by 77.8%). The main element of the net fee and commission income was not recognized in the effective interest rate part of income relating to sales of insurance (64.0% of the net fee and commission income). A significant part was also fees and commissions on loans and advances to customers (32.3%).

Structure of fee and commission income in 2015 and 2016



Structure of fee and commission expense in 2015 and 2016



Net other result

	2015 PLN thousand	2016 PLN thousand	Change y/y %
Dividend income	31,728	84,945	167.7
Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains	20,908	22,961	9.8
Result on other financial instruments	28,220	84,736	200.3
Result on investments in subsidiaries, associates and joint ventures	131,187	209,604	59.8
Other operating income	30,960	36,744	18.7
Other operating expense	(96,863)	(101,150)	4.4
Net other result	**146,140**	**337,840**	**131.2**

The net other result achieved in 2016 was higher by PLN 191.7 million (i.e. by 131.2%) than the result in 2015. The main items in this position were:

- Result on investments in subsidiaries, associates and joint ventures, which consisted of profit from sale of shares in a joint venture Getin Leasing S.A. (PLN 165.6 million) and profit from sale of the minority shares in a subsidiary Noble Funds TFI S.A. (PLN 44.0 million),
- Dividend income of PLN 84.9 million, including PLN 73.6 million of dividends received from subsidiaries of the Bank,
- Result on other financial instruments, including: profit from sale of shares in BIK S.A. (PLN 48.3 million) and profit from settlement of acquisition of Visa Europe Ltd by Visa Inc. (PLN 22.4 million).

Administrative expenses

	2015 PLN thousand	2016 PLN thousand	Change y/y %
Amortisation and depreciation	66,581	75,004	12.7
Employee benefits	352,397	350,621	(0.5)
Other administrative expenses	334,713	268,974	(19.6)
Payments to the Bank Guarantee Fund (BGF) and the Polish Financial Supervision Authority (PFSA) (excluding additional costs due to bankruptcy of banks)	124,265	105,615	(15.0)
Payment to the BGF due to bankruptcy of SBRiR in Wołomin and SK Nadarzyn	116,915	7,686	(93.4)
Contribution to the Borrowers Support Fund (BSF)	134,056	-	(100.0)
Total	**1,128,927**	**807,900**	**(28.4)**
Total excluding costs for BGF, PFSA and BSF	**753,691**	**694,599**	**(7.8)**

In 2016 the Bank's administrative expenses decreased by PLN 321.0 million, i.e. by 28.4% as compared to 2015. Significant cost reduction y/y was related to the additional costs incurred in 2015 due to the bankruptcy of SBRiR Wołomin of PLN 116.9 million and contribution to the Borrowers Support Fund in the amount of PLN 134.1 million. In 2016 the Bank was also obliged to pay additional costs – due to the bankruptcy of SK Nadarzyn in the amount of PLN 7.7 million.

Operating expenses excluding fees to the BGF, PFSA and BSF amounted to PLN 694.6 million in 2016 and were lower by PLN 59.1 million (i.e. by 7.8%) than the corresponding costs incurred in 2015.

Lower operating expenses compared to 2015 contributed to a decrease in the cost/income ratio – in 2016 the rate was 48.2% (down by 23.8 p.p. in 2015), and without taking into account additional costs to the BGF and the Borrowers Support Fund the cost/income ratio would have been 47.7% in 2016 and by 8.3 p.p. lower than in 2015.

Net impairment allowances on financial assets

The impact of net impairment allowances on financial assets on the results of the Bank in 2016 amounted to PLN 688.0 million and was higher by 65.2% than in 2015.

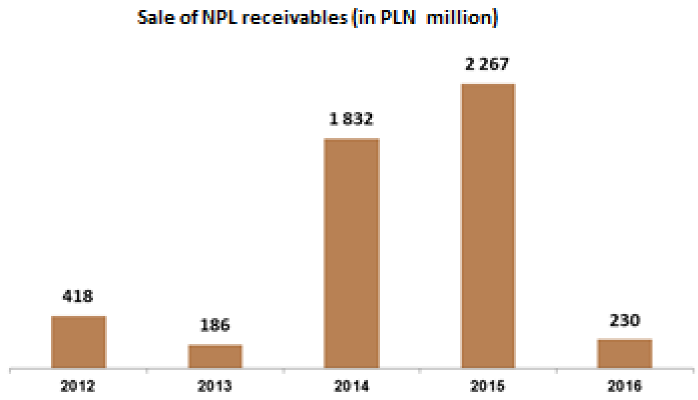
The structure of impairment allowances in 2016 and 2015 is presented in the table below:

Net change in allowances in the income statement	2015 PLN thousand	2016 PLN thousand	Change y/y %	Change y/y PLN thousand
Loans and advances to customers, of which:	419,190	633,815	51.2	214,625
corporate	25,718	87,532	240.4	61,814
car	(15,950)	31,117	(295.1)	47,067
mortgage	207,446	254,103	22.5	46,657
retail	201,976	261,063	29.3	59,087
Investments in subsidiaries and associates	-	55,200	#	55,200
Other financial assets and off-balance sheet provisions	(2,666)	,(1,057)	(60.4)	1,609
Total	**416,524**	**687,958**	**65.2**	**271,434**

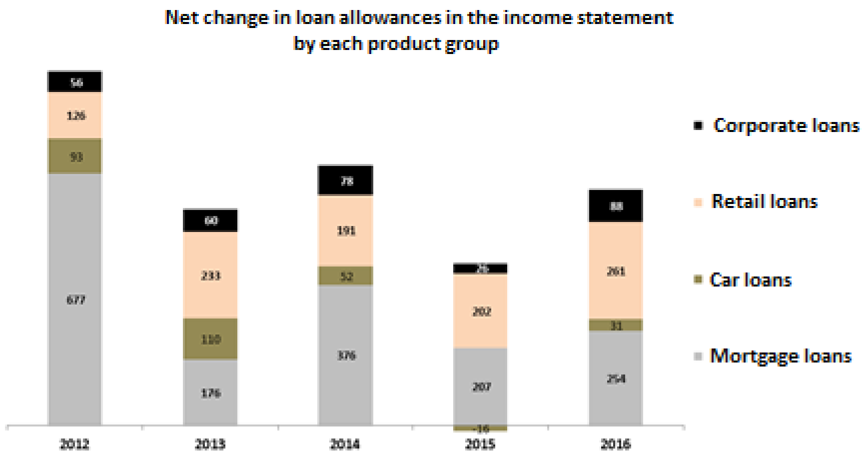
The increase in the level of impairment allowances in 2016 resulted from, among others:

- sale of NPL receivables realized in 2015, which reduced the level of write-downs in the previous year; in 2016 the Bank did not carry out such significant sales transactions, and as a result the level of net impairment losses on loans and advances was higher than in the previous year,
- recognition of impairment of investments in subsidiaries and associates, resulting in the impairment allowances of a total of PLN 55.2 million.

Presented below is the level of NPL receivables sold at nominal value over the last years:



Compared to the end of 2015 the value of allowances for all loan categories increased. The highest increase occurred corporate loans, i.e. by 10.7 p.p. The second categories of loans with the highest growth in allowances were car loans, i.e. by 5.6 p.p.



Key financial ratios of the Bank

	2015 %	2016 %	Change y/y p.p.
ROE net	0.29	2.14	1.85
ROA net	0.02	0.16	0.14
C/I (cost to income)	72.0	48.2	(23.8)
C/I (excluding additional costs to BGF and BSF – PLN 251 million in 2015 and PLN 8 million in 2016)	56.0	47.7	(8.3)
CAPITAL RATIOS:			
Tier 1 capital ratio	10.9	12.3	1.4
Total capital ratio	14.1	15.7	1.6

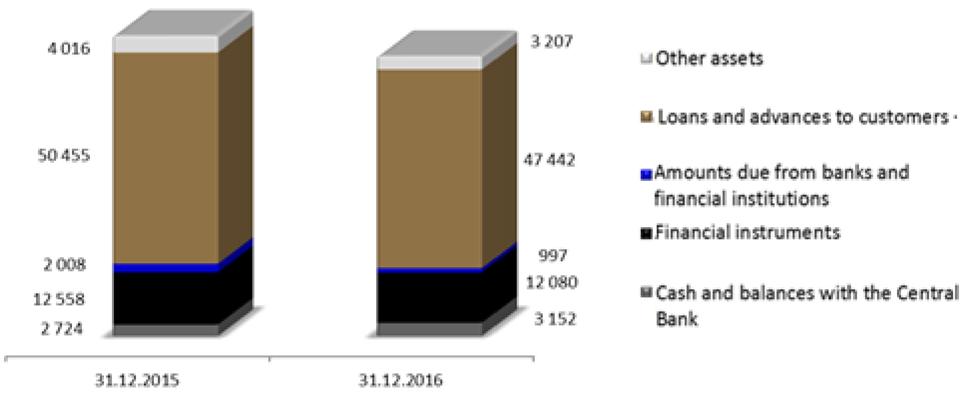
4.2. Statement of financial position of the Bank

ASSETS

In 2016 Getin Noble Bank S.A. performed the process of optimizing the balance sheet structure, primarily by reducing the scale of operations and consequently lowering the value of total assets. In 2016 total assets decreased to PLN 66.9 billion, i.e. by nearly 7%. The main share in the Bank's assets is loans and advances to customers (70.9% of total assets). A change in the balance sheet structure is primarily achieved by lowering the volume of mortgages to other loan categories, among others cash loans, i.e. products with higher margin and faster turnover.

Total balance of financial assets (financial assets held for trading, measured at fair value through profit or loss, available-for-sale and held-to-maturity) amounted PLN 12.1 billion at the end of (decrease by PLN 0.5 billion i.e. by 3.8%) and consisted primarily of a portfolio of bonds issued by State Treasury of the value of PLN 10.6 billion.

Structure of the Bank assets as at 2016 and 2015 (in PLN million)

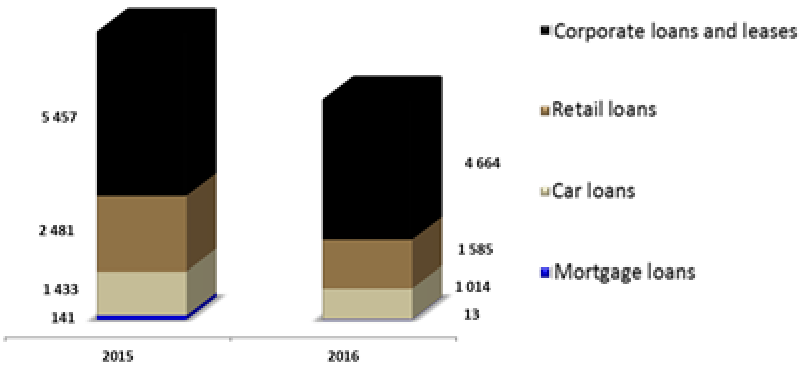


Loan portfolio

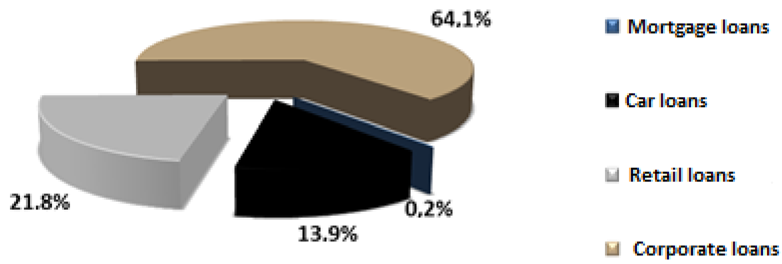
In 2016 the Bank implemented a program of optimization of the Bank's balance sheet aimed at raising capital ratios. One of the activities undertaken in terms of optimization was the reduction of sale of loans (mainly long-term) and disposal of a part of the loan portfolio.

Total value of loans sold in 2016 amounted to PLN 7.3 billion, i.e. 24% less than in 2015. The leading products in loan sales were purchases of lease receivables, retail and car loans and corporate loans. The bank practically reduced mortgages to a minimum – sale of mortgages in 2016 constituted 0.2% of total sales (in 2015 it was 2%). In the structure of loans granted in 2016, 99.5% of new loans were denominated in zloty.

Loan sale in 2016 and 2015 (in PLN thousand)

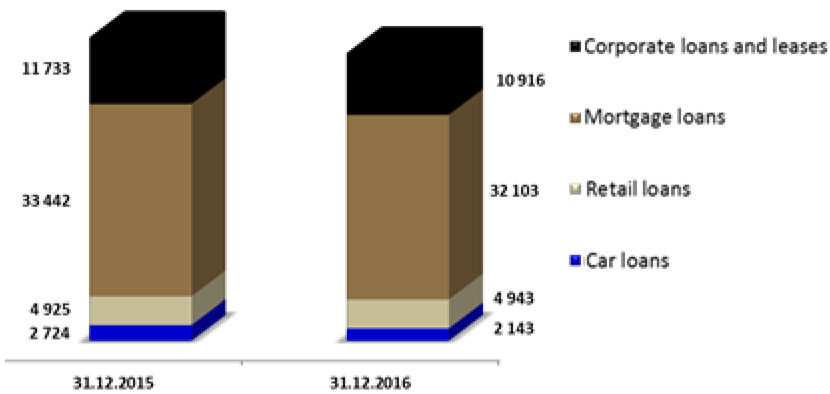


Structure of loan sale in 2016



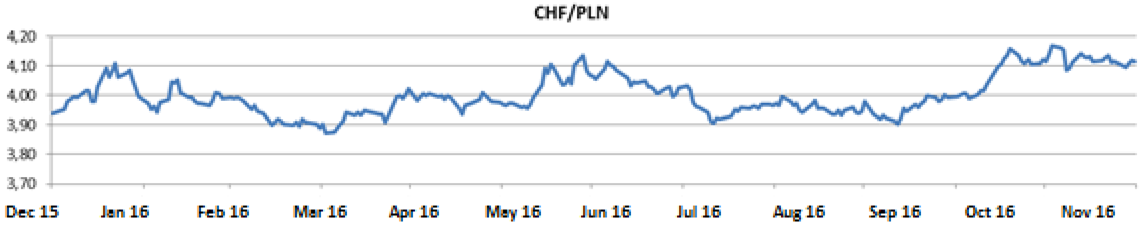
Almost 2/3 of the loan portfolio in the Bank's statement of financial position continues to be mortgages, which is the result of high volume of sales carried out in previous years. The average monthly mortgage loan sales in the third quarter of 2011 amounted to over PLN 650 million. In subsequent periods, as a result of substantial changes in the loan sales-mix, the sale of these loans steadily declined. Since 2014 due to the decision to consistently strengthen the Bank's capital base, mortgages are treated as a niche product and its distribution is limited to several million zloty a month. Mortgage loans account for 64% of the Bank's gross loan portfolio. Another significant group of loans are loans for corporate and budgetary entities and purchased lease receivables (in total 22% of the loans balance).

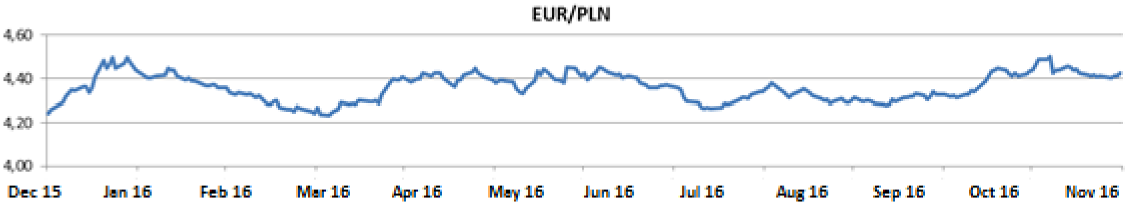
Bank loan receivables gross as at the end of 2016 and 2015 (in PLN million)

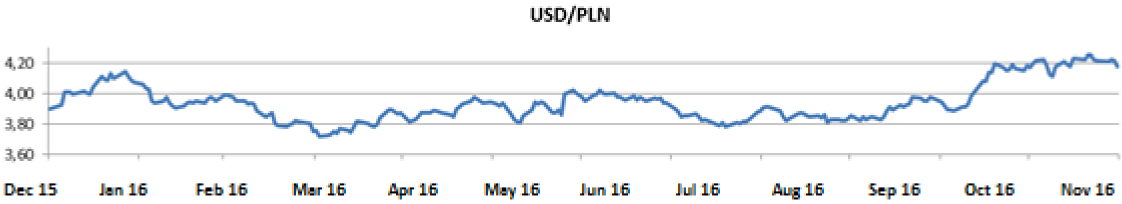


CHF loans accounted for 27% of the carrying value of the loan portfolio of Getin Noble Bank S.A. at the end of 2016.

The exchange rates fluctuations in 2016 are presented in the following charts:





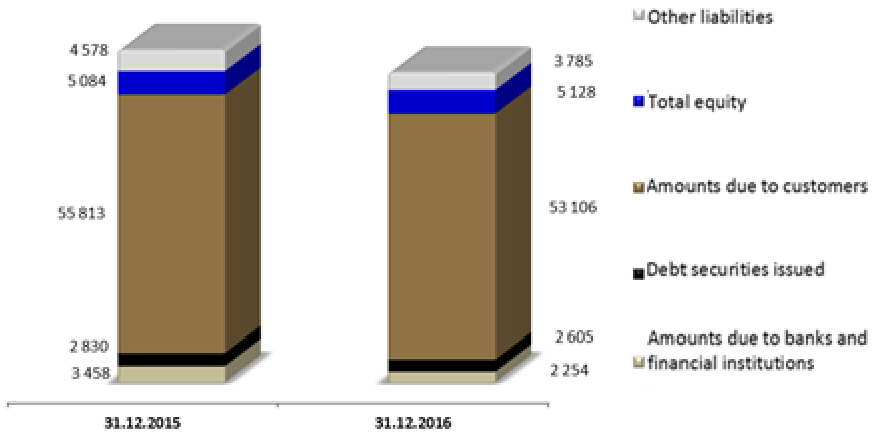


In 2016 level of key foreign currency exchange rates increased by approximately 4-7%, which directly affected the balance of loans denominated or indexed to foreign currencies. The CHF exchange rate increased by 4.52% (0.18 zloty), reaching the level of 4.1173 at the end of 2016. The average CHF/PLN exchange rate in 2016 was 4.00, while its maximum level was 4.1705.

EQUITY AND LIABILITIES

The main source of funding of lending activities of the Bank at the end of 2016 was customer deposits. Amounts due to customers as at 31 December 2016 amounted to PLN 53.1 billion and constituted 79.4% of total assets (decrease in comparison to previous year by PLN 2.7 billion). In 2016 the Bank reduced its liabilities to banks and financial institutions by PLN 1.2 billion (mainly in repo transactions and loans and borrowings).

Structure of the Bank equity and liabilities as at the end of 2015 and 2016 (in PLN million)

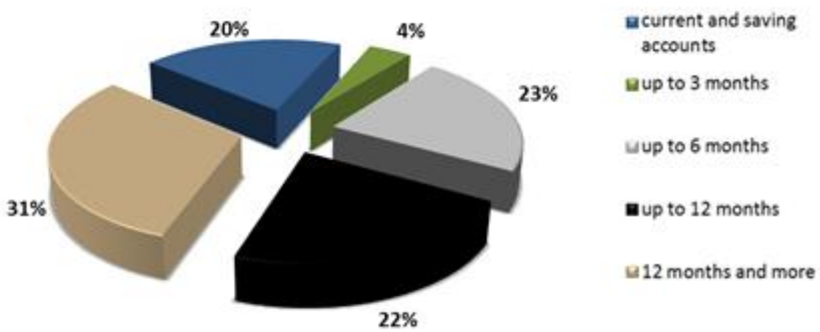


Deposit base

In 2016 amounts due to customers decreased by PLN 2.7 billion (i.e. by 4.8%) to the amount of PLN 53.1 billion. The term deposits constitute the largest share of amounts due to customers (account for 80% of the deposit base of the Bank). The decrease in amounts due to customers in 2016 resulted from the decrease in the balance of customers' term deposits by PLN 4.1 billion to the PLN 42.7 billion and from the increase in the balance on current and savings accounts by PLN 1.4 billion to the PLN 10.4 million. The change in the balance of customer deposits is in line with the Bank's strategy to change its balance sheet structure – decreasing balance of loan receivables also reduces the level of its funding.

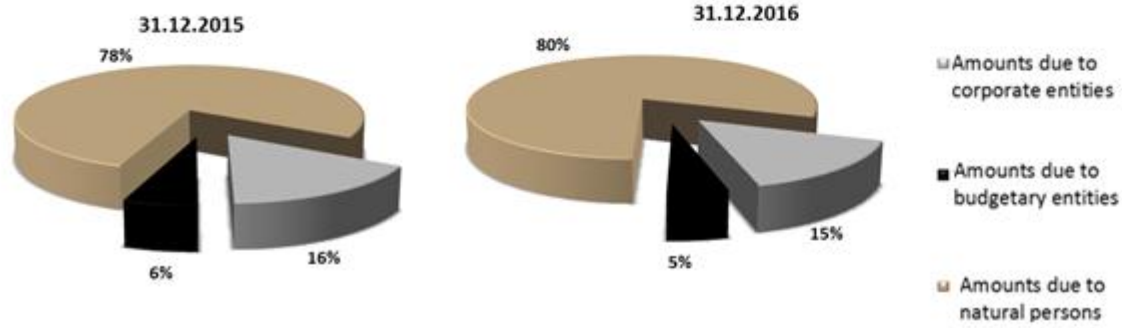
The total cost of acquiring customer deposits was 2.3% in 2016, i.e. by 0.5 percentage point less than in 2015. The cost of acquiring new term deposits from retail clients fell from 2.29% in December 2015 to 1.94% in December 2016.

Structure of customer deposits by original maturity as at the end of 2016



At the end of 2016 the share of deposits with a maturity of 12 months and longer in the total deposit balance was 31%.

Structure of amounts due to customers as at the end of 2016 and 2015



4.3. Consolidated income statement

The main items of the consolidated income statement of the Getin Noble Bank S.A. Capital Group for 2016 and changes in relation to the previous year are as follows:

	2015 PLN thousand	2016 PLN thousand	Change y/y %
Net interest income	1,195,710	1,316,680	10.1
Net fee and commission income	326,849	126,387	(61.3)
Net other result *	139,455	94,172	(32.5)
Administrative expenses	(1,192,977)	(859,040)	(28.0)
Net impairment allowances on financial assets and off-balance sheet provisions	(430,013)	(659,554)	53.4
Share of profits of associates and joint ventures	33,933	(3,084)	(109.1)
Tax on certain financial institutions	-	(38,273)	#
Profit before tax	**72,957**	**(22,712)**	**(131.1)**
Income tax	(18,612)	(15,936)	(14.4)
Net profit	**54,345**	**(38,648)**	**(171.1)**
attributable to equity holders of the parent	44,166	(42,338)	(195.9)
attributable to non-controlling interests	10,179	3,690	(63.7)

* Net other result includes dividend income, result on financial instruments measured at fair value through profit or loss and net foreign exchange gains, result on investments in subsidiaries, associates and joint ventures, result on other financial instruments, net other operating income and expense.

Net interest income

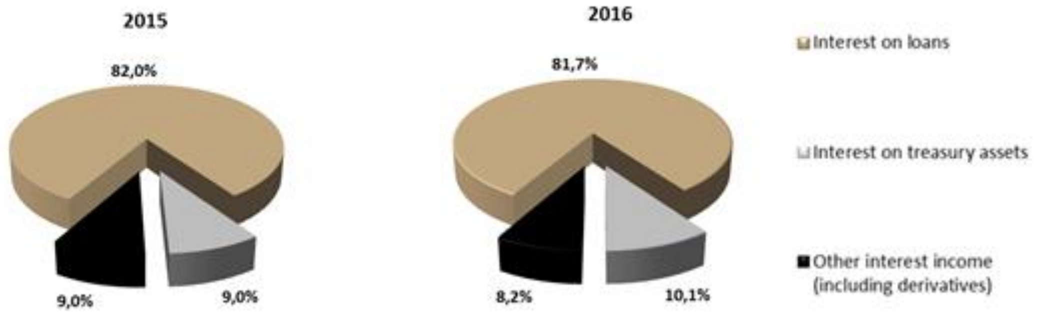
In 2016 the Group recorded an increase in interest income compared to 2015 by 10.1%. The improvement in net interest income was mainly due to a significant reduction in interest expenses, which in 2016 decreased by over 20% compared to costs incurred in 2015. The main component of interest expense is interests on amounts due to customers (88.9% of the total interest expenses of the Group), which in 2016 were lower by 18.7%.

Interest income declined by 8.5% in 2016. Product structure of loans balance determines the level of interest income – the Bank holds a significant volume of mortgage loans in the loan portfolio, of which interest accounted for 43.8% of interest income on loans and advances to customers in 2016.

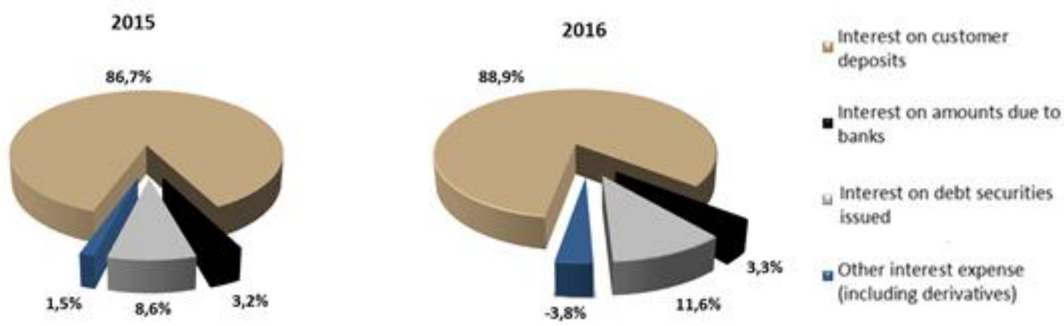
At the end of 2016 the Group had 20% of customer funds deposited on current and savings accounts and 31% of customer funds with a due date of at least 12 months.

Costs related to the issue of debt securities increased by 6.5% y/y and accounted for 11.6% of the Group's interest expenses in 2016.

Structure of interest income in 2015 and 2016



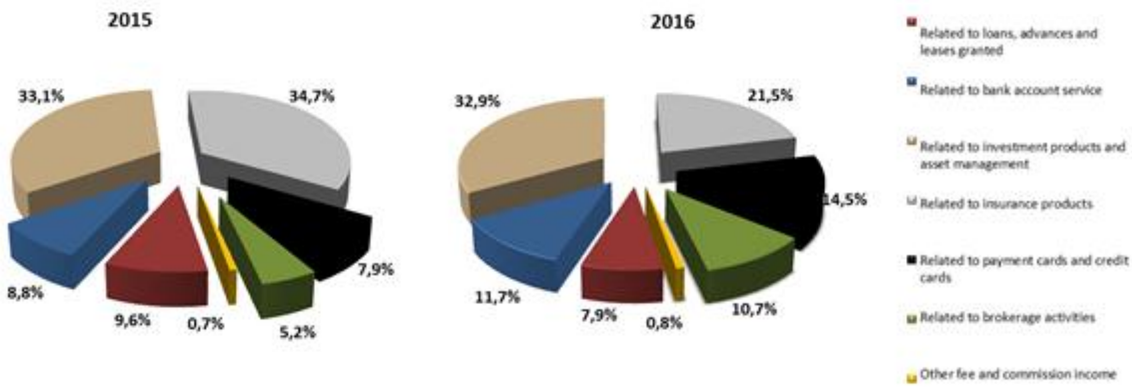
Structure of interest expense in 2015 and 2016



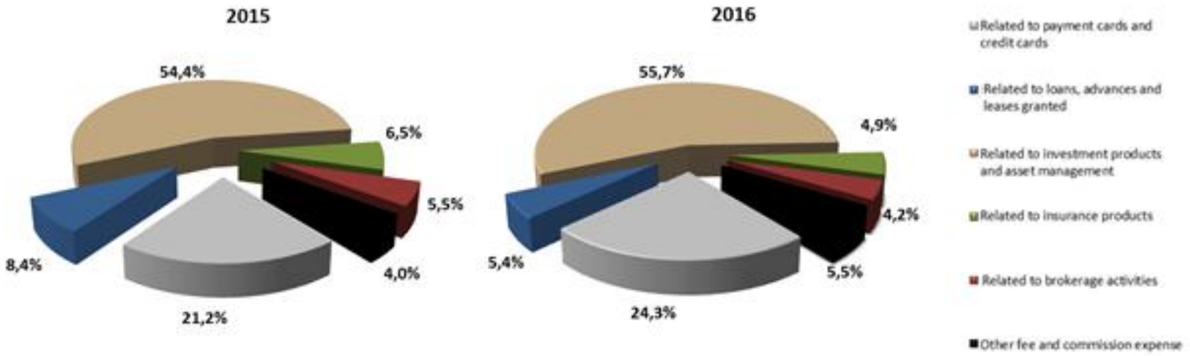
Net fee and commission income

In 2016 net fee and commission income amounted to PLN 126.4 million and was lower than the previous year by PLN 200.5 million (i.e. by 61.3%). The main element of the net fee and commission income was not recognized in the effective interest rate part of income relating to sales of insurance (46.4% of net fee and commission income). A significant part was also fees and commissions related to brokerage activities (20.3%) and on loans and advances to customers (11.5%).

Structure of fee and commission income in 2015 and 2016



Structure of fee and commission expense in 2015 and 2016



Net other result

	2015 PLN thousand	2016 PLN thousand	Change y/y %
Dividend income	14,121	11,472	(18.8)
Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains	36,683	35,182	(4.1)
Result on other financial instruments	23,959	85,228	255.7
Result on investments in subsidiaries, associates and joint ventures	134,646	45,420	(66.3)
Other operating income	62,235	52,506	(15.6)
Other operating expense	(132,189)	(135,636)	2.6
Net other result	**139,455**	**94,172**	**(32.5)**

The net other result achieved in 2016 was lower by PLN 45.3 million (i.e. by 32.5%) than the result in 2015. The main items in this position were:

- Result on other financial instruments of PLN 85.2 million, including: profit from sale in IV quarter of shares in BIK S.A. (PLN 48.3 million) and profit from settlement of acquisition of Visa Europe Ltd by Visa Inc. in II quarter 2016 (PLN 22.4 million).
- Result on sale of shares in a joint venture Getin Leasing S.A. in the amount of PLN 45.4 million,
- Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains in the amount of PLN 35.2 million,
- Dividend income of PLN 11.5 million.

Administrative expenses

	2015 PLN thousand	2016 PLN thousand	Change y/y %
Amortisation and depreciation	72,430	80,219	10.8
Employee benefits	392,935	386,696	(1.6)
Other administrative expenses	351,981	277,895	(21.0)
Payments to the Bank Guarantee Fund (BGF) and the Polish Financial Supervision Authority (PFSA) (excluding additional costs due to bankruptcy of banks)	124,660	106,544	(14.5)
Payment to the BGF due to bankruptcy of SBRiR in Wołomin and SK Nadarzyn	116,915	7,686	(93.4)
Contribution to the Borrowers Support Fund (BSF)	134,056	-	(100.0)
Total	**1,192,977**	**859,040**	**(28.0)**
Total excluding costs for BGF, PFSA and BSF	**817,346**	**744,810**	**(8.9)**

In 2016 the Group's administrative expenses decreased by PLN 333.9 million, i.e. by 28.0% as compared to 2015. Significant cost reduction y/y was related to the additional costs incurred in 2015 due to the bankruptcy of SBRiR Wołomin of PLN 116.9 million and contribution to the Borrowers Support Fund in the amount of PLN 134.1 million. In 2016 the Group was also obliged to pay additional costs – due to the bankruptcy of SK Nadarzyn in the amount of PLN 7.7 million.

Operating expenses excluding fees to the BGF, PFSA and BSF amounted to PLN 744.8 million in 2016 and were lower by PLN 72,5 million (i.e. by 8.9%) than the corresponding costs incurred in 2015.

Lower operating expenses compared to 2015 contributed to a decrease in the cost/income ratio – in 2016 the rate was 55.9% (down by 15.9 p.p. in 2015), and without taking into account additional costs to the BGF and the Borrowers Support Fund the cost/income ratio would have been 55.4% in 2016 and by 1.3 p.p. lower than in 2015.

Net impairment allowances on financial assets

The impact of net impairment allowances on financial assets on the results of the Group in 2016 amounted to PLN 659.6 million and was higher by 53.4% than in 2015.

The structure of impairment allowances in 2016 and 2015 is presented in the table below:

Net change in allowances in the consolidated income statement	2015 PLN thousand	2016 PLN thousand	Change y/y %	Change y/y PLN thousand
Loans and advances to customers, of which:	421,533	646,696	53.4	225,163
corporate	28,061	100,413	257.8	72,352
car	(15,950)	31,117	(295.1)	47,067
mortgage	207,446	254,103	22.5	46,657
retail	201,976	261,063	29.3	59,087
Investments in associates	-	13,900	#	13,900
Other financial assets and off-balance sheet provisions	8,480	(1,042)	(112.3)	(9,522)
Total	**430,013**	**659,554**	**53.4**	**229,541**

Key financial ratios of the Group

	2015 %	2016 %	Change y/y p.p.
ROE net	1.07	(0.74)	(1.81)
ROA net	0.08	(0.06)	(0.14)
C/I (cost to income)	71.8	55.9	(15.9)
C/I (excluding additional costs to BGF and BSF – PLN 251 million in 2015 and PLN 8 million in 2016)	56.7	55.4	(1.3)
CAPITAL RATIOS:			
Tier 1 capital ratio	11.1	12.3	1.2
Total capital ratio	14.3	15.7	1.4

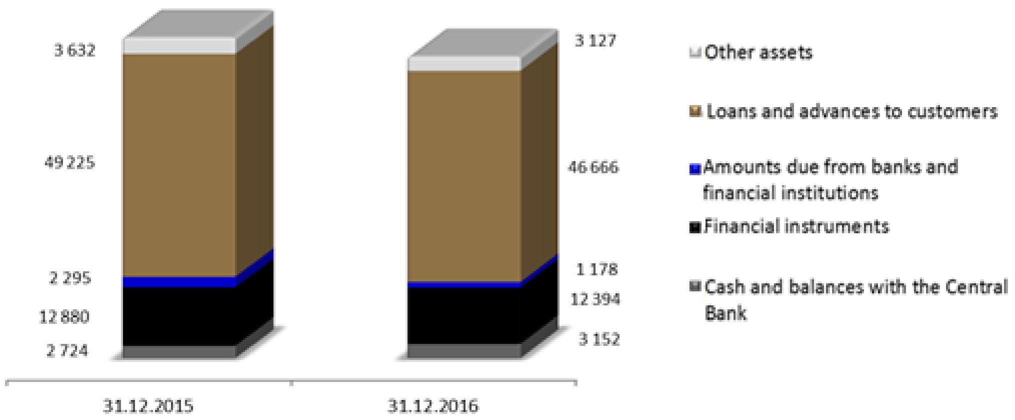
4.4. Consolidated statement of financial position

ASSETS

According to the assumptions of the PPN in 2016 Getin Noble Bank S.A. performed the process of optimizing the balance sheet structure, primarily by reducing the scale of operations and consequently lowering the value of total assets. In 2016 the Group's total assets decreased to PLN 66.5 billion, i.e. by 6%. The majority of the Bank's assets are loans and advances to customers (70.2% of total assets).

Total balance of financial assets (financial assets held for trading, measured at fair value through profit or loss, available-for-sale and held-to-maturity) amounted PLN 12.4 billion at the end of 2016 (an increase by PLN 0.5 billion i.e. by 3.8%) and consisted primarily of a portfolio of bonds issued by State Treasury of the value of PLN 10.7 billion.

Structure of the Group assets as at 2015 and 2016 (in PLN million)

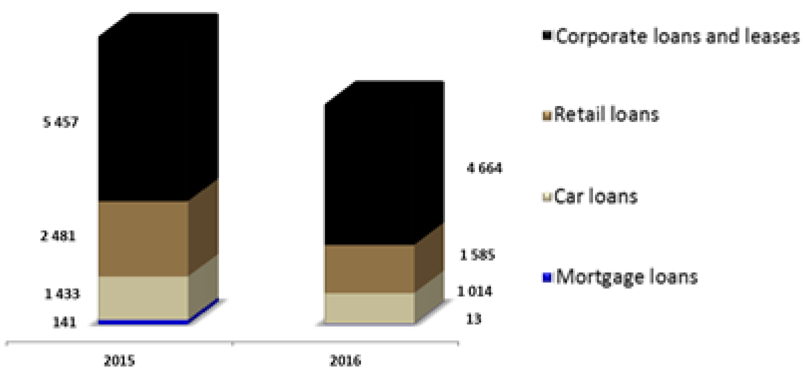


Loan portfolio

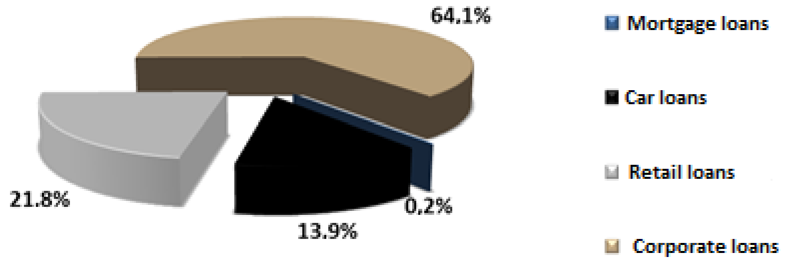
In 2016 the Bank implemented a program of optimization of the Bank's and the Group's balance sheet aimed at raising capital ratios. One of the activities undertaken in terms of optimization was the reduction of sale of loans (mainly long-term) and disposal of a part of the loan portfolio.

Total value of loans sold in 2016 amounted to PLN 7.3 billion, i.e. 24% less than in 2015. The leading products in loan sales were purchases of lease receivables, retail and car loans and corporate loans. The bank practically reduced mortgages to a minimum – sale of mortgages in 2016 constituted 0.2% of total sales (in 2015 it was 2%). In the structure of loans granted in 2016, 99.5% of new loans were denominated in zloty.

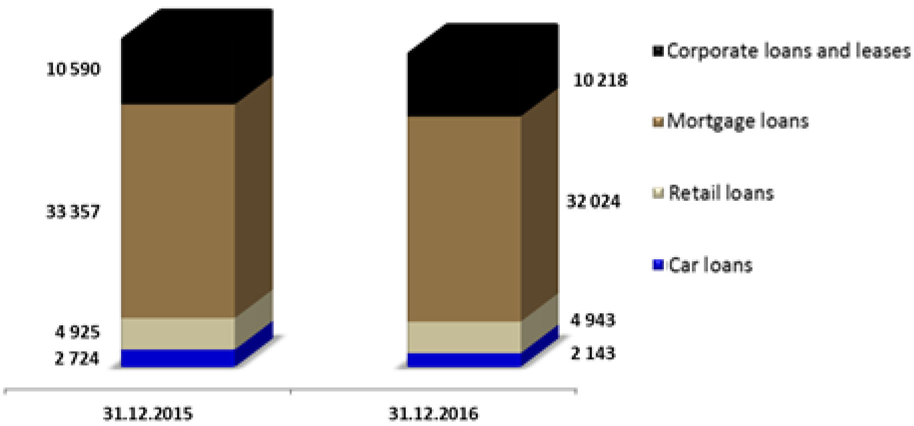
Loan sale in 2016 and 2015 (in PLN million)



Structure of loan sale in 2016



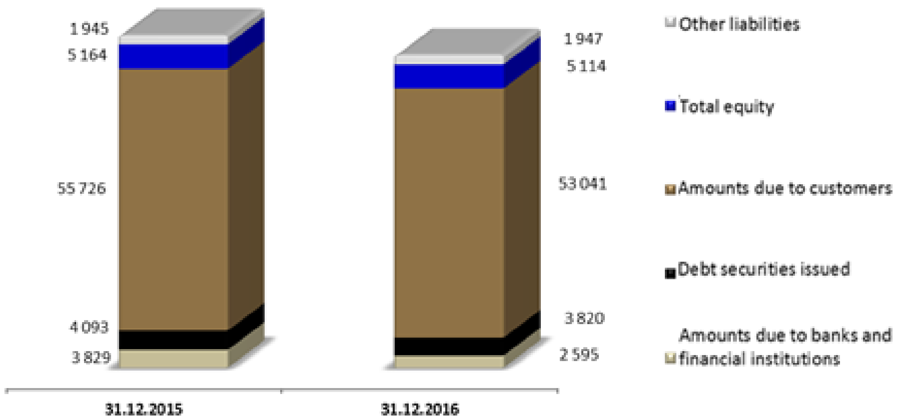
The Group loan receivables gross as at the end of 2016 and 2015 (in PLN million)



EQUITY AND LIABILITIES

The main source of funding of lending activities of the Group at the end of 2016 was customer deposits. Amounts due to customers as at 31 December 2016 amounted to PLN 53.0 billion and constituted 79.7% of total assets (decrease in comparison to previous year by PLN 2.7 billion). In 2016 the Group reduced its liabilities to banks and financial institutions by PLN 1.2 billion (mainly in repo transactions and loans and borrowings).

Structure of the Group equity and liabilities as at the end of 2016 and 2015 (in PLN million)

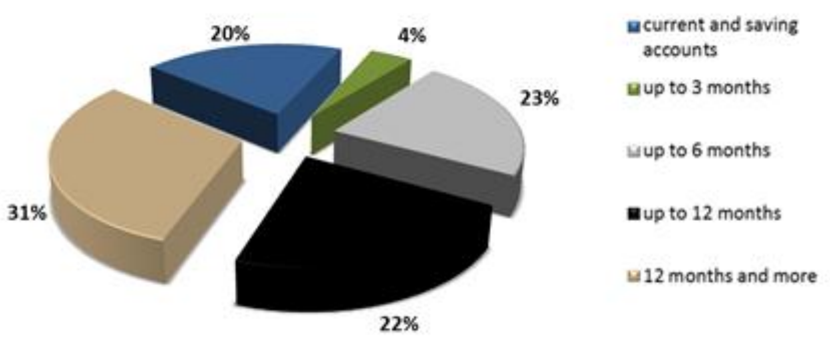


Deposit base

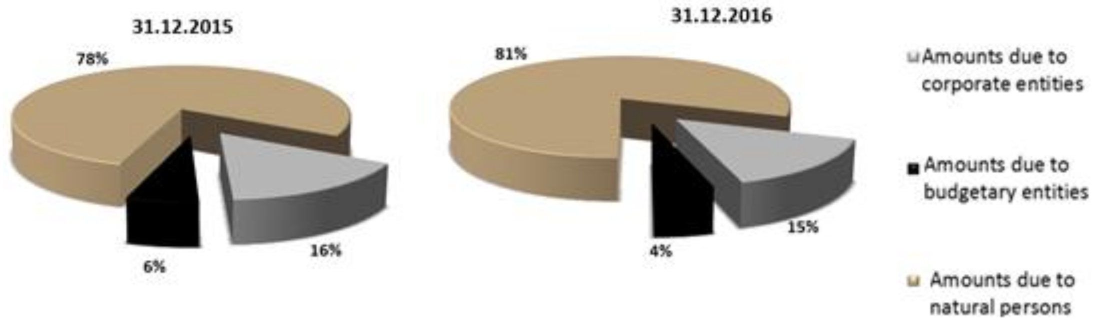
In 2016 amounts due to customers decreased by PLN 2.7 billion (i.e. by 4.8%) to the amount of PLN 53.0 billion. The term deposits constitute the largest share of amounts due to customers (account for 80% of the deposit base of the Group). The decrease in amounts due to customers in 2016 resulted from the decrease in the balance of customers' term deposits by PLN 4.1 billion to the PLN 42.7 billion and from the increase in the balance on current and savings accounts by PLN 1.4 billion to the PLN 10.4 million. The change in the balance of customer deposits is in line with the Bank's strategy to change the Group's balance sheet structure – decreasing balance of loan receivables also reduces the level of its funding. The fall in the deposit balance and change in the Group's balance of customer deposits (increase in 2016 in the share of funds on current and savings accounts by 3.5 p.p. to 20%) had a positive impact on the level of cost of acquiring client deposits.

The total cost of acquiring customer deposits was 2.3% in 2016, i.e. by 0.5 percentage point less than in 2015.

Structure of customer deposits by original maturity as at the end of 2016



Structure of amounts due to customers as at the end of 2016 and 2015



4.5. Contingent liabilities

The Bank's liabilities arising from granted loans and guarantees of loans repayments as at 31 December 2016 amounted to PLN 2.3 billion.

	31.12.2015 PLN thousand	31.12.2016 PLN thousand
Financial	2,104,279	2,131,104
Guarantees	180,570	174,556
Total contingent liabilities granted	**2,284,849**	**2,305,660**

	31.12.2015 PLN thousand	31.12.2016 PLN thousand
Financial	300,000	-
Guarantees	660,342	523,664
Total contingent liabilities received	**960,342**	**523,664**

In 2016 and 2015 the Bank did not grant any sureties or guarantees – total to one entity or its subsidiary, which total value accounted for equivalent of at least 10% of the Bank's equity.

The Group's liabilities arising from granted loans and guarantees of loans repayments as at 31 December 2016 amounted to PLN 2.3 billion.

	31.12.2015 PLN thousand	31.12.2016 PLN thousand
Financial	2,096,910	2,123,989
Guarantees	170,405	164,387
Total contingent liabilities granted	**2,267,315**	**2,288,376**

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

In 2016 and 2015 the Group entities did not grant any sureties or guarantees – total to one entity or its subsidiary, which total value accounted for equivalent of at least 10% of the consolidated equity.

5. Risk management

Methods and objectives in the financial risk management

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

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

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

5.1. Credit risk

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

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

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

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

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

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

Structure and organization of credit risk management unit

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

<u>Supervisory Board of the Bank</u>

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.

<u>Management Board of the Bank</u>

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

<u>Credit Committee of the Bank</u>

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

Advisory Committee of the Bank

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

Credit Risk Committee

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

Credit Risk Division of the Bank

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

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

Internal Audit Department

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

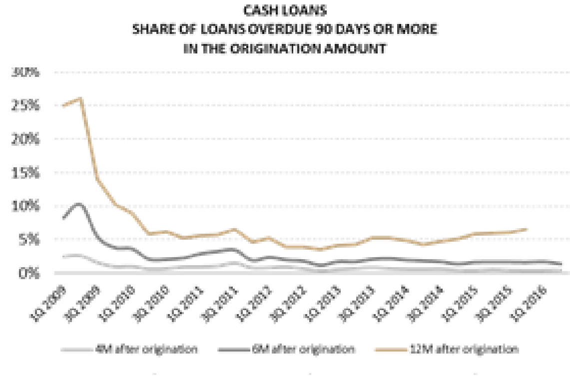
Credit risk management strategies and processes

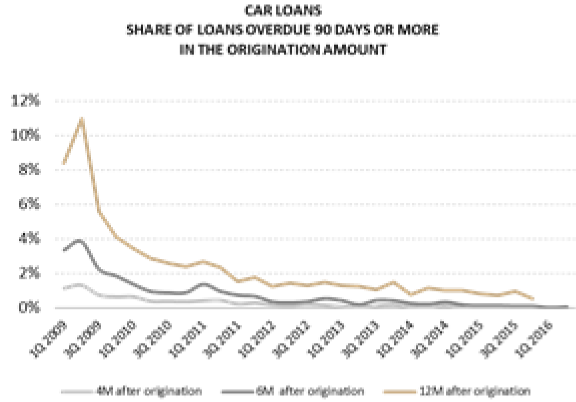
The Bank has developed Credit strategy and policy and Credit exposures risk management strategy and policy, which define rules, guidelines and recommendations relating to credit activities. These documents serve also as a basic instrument for the realization of a selected strategy towards credit risk.

The policy towards credit risk is subject to review and adjustment taking into account both: external regulations (the PFSA resolutions) and to macroeconomic factors, which may, in the Bank's opinion, have influence on credit risk increase.

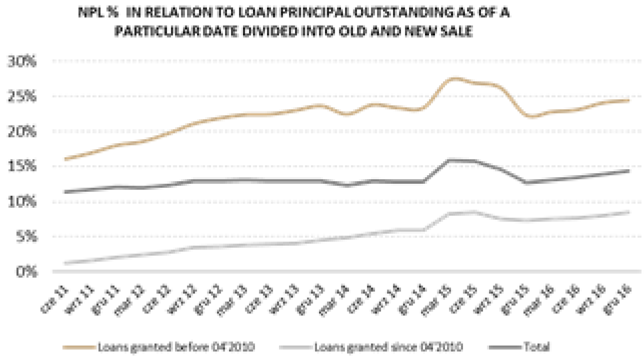
In 2016 the Bank regulated issues related to credit risk models resulting from Recommendation W. The Bank also initiated actions to limit credit risk resulting from interest rate volatility by increasing the buffer used to cover the aforementioned risk in the situation of record low interest rates. It was decided to grant retail loans exclusively with a fixed interest rate. For retail loans and car loans while assessing the client's creditworthiness the level of accepted minimum expenses varies depending on the lending period. To mitigate credit risk of exposures for which simplified credit risk assessment was used, limits relating to the whole portfolio of those exposures as well as to individual customer exposure were determined. The actions undertaken by the Bank have measurable impact on maintaining level of risk within the so-called "risk appetite" approved by the Management Board and the Supervisory Board.

Differences in the level of repayment of major credit products in recent years are shown in the following charts – there is significantly noticeable improvement in the quality of sales in 2010 and its maintenance in subsequent years.

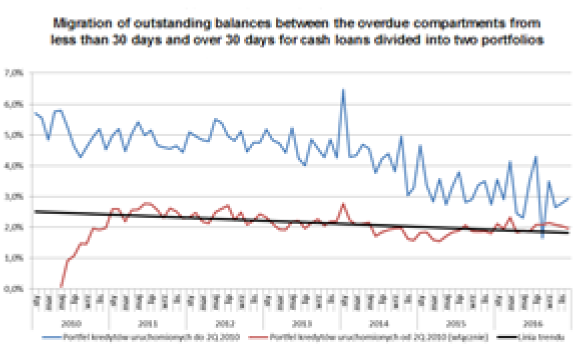


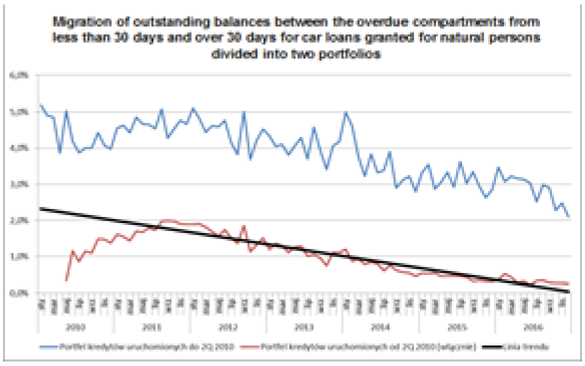


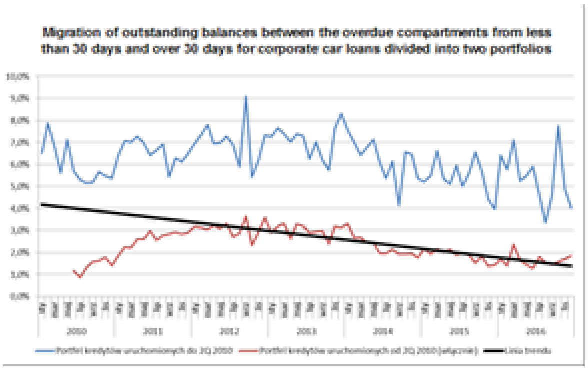
Improvement in the quality of newly generated credit portfolio is also noticeable at the level of the NPL ratio (Non-Performing Loans) – sales generated after the merger of the Banks has a much lower level of credit risk. In March 2015 the Bank introduced to the methodology of impairment allowances calculation in accordance with IAS 39 and IAS 37 the PFSA recommendations, including expanded catalogue of indications of impairment. This resulted in an increase in the volume of non-performing exposure visible on the first and second quarter of 2015. The Bank recognizes currently an impairment for exposures much earlier than is visible overdue, and some indications is given prudentially and has no direct link with the significant deterioration in repayment of the exposure. In the second half of 2015 the Bank conducted a significant volume sale of NPL portfolios (most of which involved mortgage portfolios), resulting in lower NPLs.

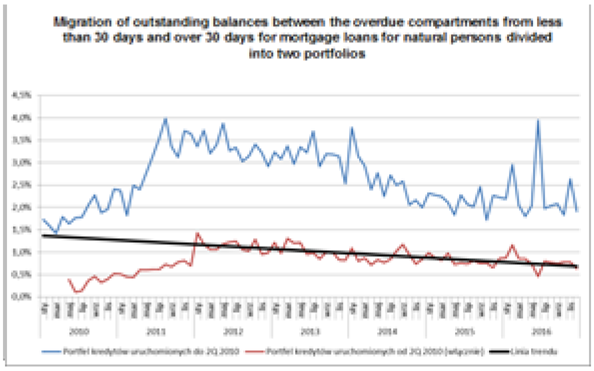


In addition, improving the quality of loans – particularly in comparison with the quality of loans granted before 2010 is clearly noticeable also in the monthly level of migration of balances overdue less than 30 days to the higher categories of delays. Results of analyses for major Bank's products are presented in the following charts:









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

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

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

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

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

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

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

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

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

Scope and type of the risk reporting and measurement systems

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

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

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

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

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

In procedures and internal regulations of the Bank, within concentration risk management regulations, were described the limits of exposure concentration. The Bank limits the concentration of exposure to individual clients and capital groups. The Management Board of the Bank established the concentration limit at more restrictive level that the one required by the Polish Financial Supervision Authority, i.e. 5% of the Bank's own funds, however the sum of all large exposures (large exposure limit) cannot be higher than 400% of the Bank's own funds. As at 31 December 2016 (except the exposure to the governments and the Central Bank) only exposure to the group of entities related to the Bank by the parent and the exposure to GNB Leasing Plan Ltd. (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 customers who receives its income in particular currency or hedge against exchange rate risk.

Principles for using collateral and policies of risk reduction

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

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

In 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.

5.2. Market risk

Market risk is defined as an uncertainty about whether the interest rates, currency exchange rates or prices of securities and other financial instruments held by the Group will have a value different from that previously assumed, thereby giving rise to unexpected profits or losses from the positions held in these instruments.

The objective of assets and liabilities management in the Group is the optimisation of the structure of the statement of financial position and off-balance sheet of the Group entities in order to preserve the adopted relation of profit to the risk undertaken. The main sources of currency risk in the Group are items of Getin Noble Bank S.A. Monitoring of the level of risk in the Group is carried out by periodic measurements of risk on a consolidated basis.

Market risk management strategy of the Bank is set out in the Strategy of the Bank, i.e. the document that is approved by the Supervisory Board. The Strategy identified among others the appetite for market risk. Market risk management at the strategic level is the responsibility of the Management Board.

Currency risk

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

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

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

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

The analysis of the Bank's exposure to currency risk is made through:

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

Sensitivity analysis for currency risk

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

VAR (1D, 99.9%)	31.12.2015 PLN thousand	31.12.2016 PLN thousand
Currency risk - Bank	303	384
Currency risk - Group	428	805

VaR consists of test, with 99.9% probability, of maximal amount of loss on foreign exchange position, which the Bank/ Group may incur in one day, assuming normal market conditions. The volatility used in the model is calculated using the exponentially weighted moving average (EWMA) of daily relative exchange rate movements over the last 251 working days. Time series of the same length were used to determine the correlation matrix between individual exchange rates.

In 2016 the average share of total currency position (the sum of long or short net positions in individual currencies – whichever is higher) in the Bank's own regulatory funds amounted to 0.07% of the funds, while the maximum share in 2016 amounted to 0.38% of the funds. In 2015 the average share of the total currency position amounted to 0.09% of the funds, while the maximum 0.54% of the funds.

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

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

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

The overall currency position and within the key currencies is presented in the table below:

Bank	31.12.2016		31.12.2015	
	amount PLN thousand	% of own funds	amount PLN thousand	% of own funds
USD	(587)	0.01	(114)	0.00
EUR	(3,715)	0.06	16,622	0.27
CHF	11,082	0.18	4,625	0.08
Overall currency position *	**18,920**	**0.30**	**22,539**	**0.37**

Group	31.12.2016		31.12.2015	
	amount PLN thousand	% of own funds	amount PLN thousand	% of own funds
USD	2,906	0.05	3,722	0.06
EUR	16,440	0.26	24,799	0.38
CHF	12,384	0.20	4,974	0.08
Overall currency position *	**41,174**	**0.65**	**33,495**	**0.52**

* Overall exposure – sum of long exposures (excess of "+" assets) or short exposures (with "-") for all currencies (depending on which absolute figure is higher).

Interest rate risk

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

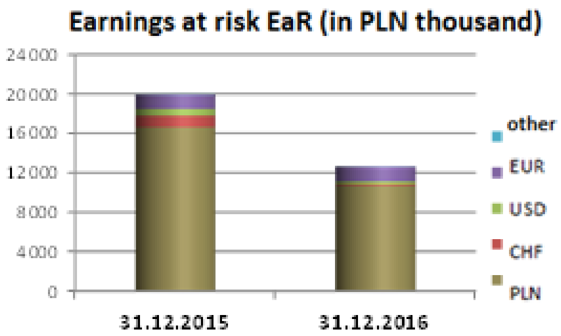
Interest rate risk management consists in minimizing the risk of negative impact of changes in market interest rates on the Group's financial standing, among others, by:

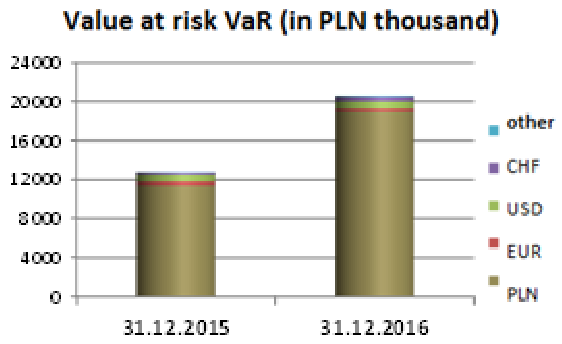
- establishing and ensuring compliance with the limits set for acceptable interest rate risk,
- conducting periodic analyses examining the level of interest rate risk and the sensitivity of the profit and loss account to changes in interest rates,
- entering into transactions limiting exposure to risk (derivatives, sale/ purchase of securities with a fixed coupon).

The effectiveness of risk management is evaluated on the basis of the level of use of the adopted limits on exposure to risk. Monitoring of interest rate risk is conducted, among others, by:

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

To reduce the exposure to interest rate risk, in 2016 Getin Noble Bank applied limits on the share of the value at risk (VaR) (1 day; 99.9%) in own funds and the EaR share in the planned net interest income for a given financial year – the interest rate risk was kept within the limits.





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

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

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

The impact of consolidated entities on the level of interest rate risk incurred by the Group is insignificant.

5.3. Liquidity risk

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

The main source of the Group's liquidity risk is Getin Noble Bank S.A.

The Bank complies in its activity with the supervisory recommendations, the European Union regulations, laws and regulations to them, orders of the President of the Polish National Bank and prudential regulations and recommendations of the Polish Financial Supervision Authority. The process of liquidity risk management at the Bank, for both the strategic and operational level has been adjusted in 2015 to the new P Recommendation.

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

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

Medium- and long-term liquidity risk management lies within the competence of the Management Board, whereas current and short-term liquidity risk management is the responsibility of the Treasury Department. The consulting role in process of liquidity risk management is performed by the Assets and Liabilities Committee.

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

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

The gap ratios, level of liquid assets, selected balance sheet ratios and the level of use of liquidity limits (including compliance with liquidity norms and LCR ratio) and sensitivity of the liquidity measures to fluctuations in exchange rates are monitored on a daily basis. Key measures are daily reported to the Management Board of the Bank.

Liquidity analyses rest on internal models reflecting the specific of the Bank's business. Customer deposits are a key source of financing the granted loans. Among stable sources of funds the prevailing items are deposits of retail clients, however, stable funds from corporate clients' deposits complement the overall base of stable funding sources.

Bank	31.12.2015 %	31.12.2016 %	Change pp.
Net loans / amounts due to customers	89.3	90.4	1.1

Group	31.12.2015 %	31.12.2016 %	Change pp.
Net loans / amounts due to customers	88.3	88.0	(0.3)

Monitoring the level of risk within the Group is carried out by periodic measurements of risk for the Group on a consolidated basis. The impact of consolidated entities on the level of liquidity risk incurred by the Group is insignificant.

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".

Supervisory liquidity measures / LCR

In accordance with the supervisory guidelines Getin Noble Bank S.A. daily calculates the supervisory liquidity measures, which in 2016 developed above the minimum amounts set by the Polish Financial Supervision Authority. In 2016 the Bank conducted the policy to maintain liquid assets at the optimum level in terms of the Bank liquidity and profitability indicators. The level of M1 measure as at the end of 2016 amounted to PLN 5.65 billion and was higher than the level as at the end of 2015 by 5.5%. The M2 measure as at the end of 2016 amounted to 1.96.

The supervisory liquidity measures of Getin Noble Bank S.A. as at 31 December 2016 and 2015 are presented below:

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

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

5.4. Operational risk

Definition and purpose of operational risk management

Operational risk is a possibility of the loss as a result of maladjustment or failure of internal processes, people and system or of external events, including also legal risk. The operational risk category covers legal risk, but does not cover strategic risk and reputation risk.

Within operational risk management, the Group realises strategic medium- and long-term goals and short-term operational goals, which execution aims to achieve strategic goals.

The main strategic goal of operational risk management is to optimize internal business and non-business processes, allowing to limit costs and losses as well as increase operational security and limit reputation 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 operations risk management is to complete identification of operational risk and possibly most precise measurement of its size and assessment of its profile. For this purpose, solutions within measurement and operational risk management model are improved, enabling in the future the application of advanced measurement methods, sensitive to operational risk, considering factor and parameters of operational risk specific for the Group, in particular for the Bank, i.e. strictly related to its operating profile.

Structure and organization of the operational risk management unit

The process of operational risk management is actively contributed by:

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

Organizational units of operational risk management include:

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

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

- the first, basic level – units and persons dealing with operational risk management in their everyday activities;
- the second, supervisory level – people holding managerial positions, performing functional control;

- the third, superior level – functioning in centralized form, which main function is operational risk management. It is realized by people fulfilling tasks of separated operational risk management unit, which is part of Operational Risk Management Department and Operational Risk Committee.

Due to the scale and type of business of Getin Noble Bank S.A., the leading role in operational risk management in the Group is fulfilled by the Bank's Supervisory Board and Management Board..

The Management Board is supported by a dedicated committee – Operational Risk Committee, which performs consulting services in the process of operational risk management.

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

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

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

The Bank manages operational risk in accordance with "Operational risk management strategy" established by the Management Board of the Bank and approved by the Supervisory Board of the Bank, including cautious regulations resulting from the banking law and appropriate resolutions and recommendations of banking supervision, as well as including characteristics of rules already applied in the Bank as well as being in the development phase and planned in the future.

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

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

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

- required equity to cover operational risk, including regulatory capital – minimal capital requirement and internal capital to cover operational risk losses;
- 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 process 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.

5.5. Compliance risk

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

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

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

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

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

5.6. Capital management

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

The measure of capital adequacy is capital ratio which shows the relationship of the own funds (after obligatory adjustments) to the risk weighted assets and off- balance sheet items. For the purpose of capital ratio risk weights are assigned to assets and off-balance sheet items in accordance to among others level of credit risk, market risk, currency risk and interest rate 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 applies to applicable legal regulations and its strategic goals. In order to maintain an optimal level and structure of own funds in terms of the preferred capital structure Getin Noble Bank S.A. assumes to have a structure with a predominant share of core capital (Tier 1), which is essential to meet the requirements specified in the *Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements and investment firms* (CRR).

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

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

According to the decision dated 18 October 2016 the Polish Financial Supervision Authority recommended Getin Noble Bank S.A. and its Capital Group to maintain an additional capital requirement in order to secure the risk arising from foreign currency mortgage loans to households at the level of 1.89 p.p. for the Bank and 1.87 p.p. for the Group above the level of Total capital ratio (TCR). Additional capital requirement should consist of at least 75% of Tier 1 (capital requirement equivalent of 1.42 p.p. for the Bank and 1.40 p.p. for the Group) and of at least 56% of core Tier I capital (capital requirement equivalent of 1.06 p.p. for the Bank and 1.05 p.p. for the Group).

It means that, as at the date of publication of this report, the minimum capital ratios taking into account the additional capital requirement recommended by the Supervision Authority are as follows:

For the Bank:

- Tier 1 Capital ratio T1= 11.92%
- Total capital ratio TCR= 15.39%

For the Group:

- Tier 1 Capital ratio T1= 11.90%
- Total capital ratio TCR= 15.37%

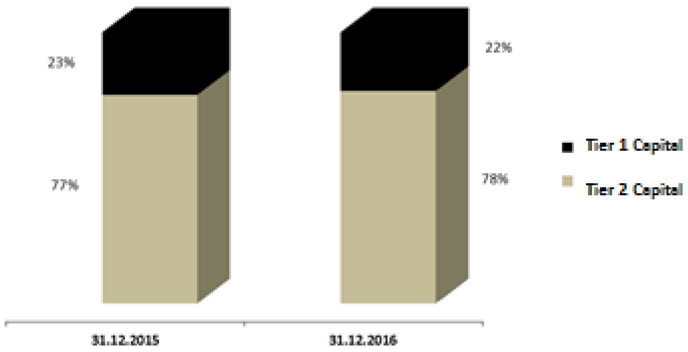
As at 31 December 2016 the Bank achieved the required level of capital ratios.

In 2016 the share of Tier 1 capital in the Bank's total equity taken into account at the calculation of the ratio increased – at the end of 2016 it amounted to 78%. The main component of the Bank's Tier 1 capital as at 31.12.2016 was share capital, which accounted for 49% of Tier1 capital.

As at the end of 2016 the value of subordinated debt issued was PLN 2.4 billion. In 2016 the Bank issued PLN 340 million of new debt. Of this amount, PLN 300 million was included in the Bank's own funds under Tier2 in 2016 and the remaining PLN 40 million in January 2017.

At the same time, according to the principles of amortization of subordinated debt, with the expiration of the maturity date of the securities, Tier 2 capital was decreased by PLN 408 million in 2016.

Structure of the Bank's capital as at the end of 2016 and 2015



Under the capital requirement, the dominant position (93% of the Bank's total capital requirement) is the capital requirement for credit risk (including credit valuation adjustment).

The Bank's internal capital, calculated on the basis of the internal capital assessment procedure, is lower than the capital requirements under Pillar I. Within Pillar II, the Bank applies its own model of the assessment of demand for internal capital, including hedging of capital against additional risks in relation to Pillar I (liquidity risk, result risk, reputation risk, capital risk).

The capital management, in accordance with regulatory requirements is in place also on the subsidiary level in Noble Funds TFI S.A. and Noble Securities S.A.

Noble Securities S.A., as a brokerage house, is obliged to maintain capital requirements in accordance with the Act of 29 July 2005 on financial instrument trading and the CRR Regulation on prudential requirements for credit institutions and investment firms. The company controls financial liquidity and capital adequacy ratios. On a regular basis all significant financial information, including information regarding to financial liquidity and capital adequacy, is submitted to the Supervisory Board of Noble Securities S.A. Information regarding to level of supervised capital is submitted, in form of report to the Polish Financial Supervision Authority. As at 31 December 2016 the company had equity and Tier 1 capital amounting to PLN 68,801 thousand. Statutory minimal registered capital of Noble Securities S.A. amounts to PLN 3,230 thousand. Moreover, as at 31 December 2016 the company has set the total risk exposure in the amount of PLN 397,956 thousand, calculated total capital requirement (requirement due to so-called II Pillar) amounting to PLN 38,372 thousand. As at 31 December 2016 the company had not any additional Tier 1 capital and Tier 2 capital. The level of own funds of Noble Securities S.A. as at 31 December 2016 was higher than internal capital, Tier 1 core capital ratio was higher than 4.5%, Tier 1 capital ratio was higher than 6%, total capital ratio was higher than 8%, which means that the company complied with requirements regarding to capital adequacy.

The control of equity in Noble Funds TFI S.A. is carried out on a current basis based on provisions of the act on investment funds. The amount of minimal equity of TFI depends on the scope of company activities, the level of assets managed, the value of incurred total expenses and the value of variable distribution expenses. As at 31 December 2016 the company had equity amounting to PLN 19,674 thousand, which significantly exceeded the level required by the act on investment funds. As at 31 December 2016 minimal regulatory equity level of TFI amounted to PLN 3,639 thousand.

6. Prospects and growth factors for the Bank and the Group

Further results achieved by the Capital Group will depend on both internal and external factors. The Bank and the Group's activities will focus on achieving the objectives and tasks set out in the Strategy for 2016-2018 and the Plan for a sustainable improvement in profitability.

6.1 External factors

- Regulatory environment – the following factors may have a significant impact on the Group's performance (and the banking sector as a whole):
  - possible implementation of regulatory solutions related to currency conversion, foreign exchange spreads or the imposition of new additional capital charges on indexed/ denominated mortgage loans on banks holding foreign currency mortgage portfolios – the Bank has a significant portfolio of foreign currency loans, therefore its financial position, development prospects and results are exposed to the potential negative effects,
  - Implementation from 1 January 2018 of IFRS 9 *Financial Instruments*, which will replace the existing IAS 39 *Financial Instruments: Recognition and Measurement*. The Bank is currently working on a project to implement the new standard. Its ultimate impact will depend on the asset structure as at the date of first application of IFRS 9, and the adjustments resulting from the change in current accounting policy will be recognized in the Bank's equity. As of the date of preparation of the financial statements, the Bank has not yet been able to determine reliable estimates of the impact of IFRS 9, primarily due to the ongoing work on the development of new credit risk models tailored to the requirements of the new standard. In addition, there are no updated prudential requirements that will be binding on the Bank and there is no clear interpretation of the new regulations and market practice.
  - Obligatory burdens on financial results due to the BGF – in accordance with the Regulation of the Minister of Development and Finance on the way of determining the risk profile of banks and branches of foreign banks and taking into account this profile in determining the bank guarantee fund contributions, there will be a change in calculation of contributions to the bank guarantee fund. One of the changes is a modification of the basis for determining contributions, which will relate to the guaranteed funds in the entity. Such a change means a relatively stronger increase in BGF fees for banks with low ROA ratio and high retail deposits balance. According to the new legal regime, the contribution of individual banks to the fees will depend on their risk profile. The Bank does not currently have full information to allow a detailed analysis of potential costs for the Bank. In the Bank's view, this change may have a negative impact on the level of the Bank's financial result.
  - Any additional one-off charges resulting from the restructuring of the savings and credit sector entities as well as potential costs related to possible further problems in the cooperative banking sector may have a negative impact on the level of the Bank's financial result.
  - Resolution No. 14/2017 dated 13 January 2017 of the Financial Stability Committee on a recommendation to restructure the portfolio of housing loans denominated in foreign currency. However, because the ultimate way of implementing the FSC's recommendations is not yet known, the Bank is not able to assess at this moment the potential impact of the target solutions on the capital ratios and the Bank's financial statements.
- Macroeconomic environment – macroeconomic environment is expected to be stable in the coming years; favourable economic situation, including a further reduction in the unemployment rate, will have a positive impact on the quality of loan portfolios.

- Currency market – the Bank holds a portfolio of foreign currency loans and indexed to the CHF and is therefore sensitive to currency fluctuations. Changes in currency exchange rates may adversely affect the Bank's financial results and capital adequacy.
- Financial market – a possible fall in interest rates may have a negative impact on the financial performance and the customer's willingness to save at banks, they will prefer for example investing their savings in TFI managed investment funds.
- Cost of acquiring deposits – in case of possible competition actions as a result of increase of offered interest rate on customer deposits, the need to adjust the pricing policy to the competitive actions of banks could adversely affect the Bank's financial results.
- Activities of the Group companies (in particular Noble Securities S.A. and Noble Funds TFI S.A.) are strongly connected with the moods of both Polish and foreign markets. The negative attitude of clients to investment in the capital market and lowering margins caused by considerable competition among Brokerage Houses and Investment Fund Companies may have a negative impact on the business and financial results of the companies. In the case of a revival on the Stock Exchange, the results obtained from brokerage activity may be expected to improve.

6.2 Internal factors

The Bank's activities in subsequent periods will focus on achieving the objectives and tasks set out in the Strategy for 2016-2018 and the Plan for a sustainable improvement in profitability. The main goal is to ensure that the Bank returns to lasting positive profitability by building a relational Bank and achieving a stable level of net profit. The developed transformation of Getin Noble Bank S.A., which involves rebuilding of retail banking, maintaining the leading position in the car loan segment, and digitizing of services will contribute to the Bank's continued business efficiency and thus improve its profitability.

The key is to strive to balance the needs of the four stakeholders:

1. Shareholders – creating of lasting value for shareholders. The activity focuses on pursuing of long-term financial objectives – stability of financial performance and coverage of new external obligations imposed on the sector.
2. Customers – satisfaction and customer relationship through quality of service and reliability of the offer. The Bank is a dynamic organization that meets the current and future needs of its customers.
3. Employees – the priority is the development of a professional, cooperating team at all levels of management, which will constitute a desirable and respected employer in the Polish banking sector.
4. Supervisor – the Bank builds a stable customer-based financial model, based on a capital base meeting the regulatory requirements and a balanced funding structure.

The strategic direction of transformation is in the area of retail banking relativity (bank of first choice for customers), while in corporate banking a synergy with retail banking and strengthening position in selected market segments.

The new strategy is based on the strengths of Getin Noble Bank S.A., such as:

1. Strong deposit base - potential for acquiring customers,
2. Leading offer for car financing,
3. Strong position within developers and private banking,
4. Competence in cash loans – an effective risk assessment model that can be used in other segments,
5. Entrepreneurship culture – outstanding ability to respond to emerging market opportunities.

It should be noted at the same time that certain limitations (both internal and external) can have negative effects and adversely affect future financial results. In addition to the external threats identified earlier, the Bank must also look at internal factors, including:

- the structural important share of mortgage loans in the loan portfolio - long-term loans held in the portfolio require adequate funding sources,
- asset quality – despite the repayment and sale of large packages of old NPL portfolios, loans of poor quality (loans sold before 2010) still have a significant share in the loans balance;
- possible complaints about products sold in the past – despite the fact that for several years the Bank has radically redesigned its product offer to suit the needs of customers and their situation, which is reflected in a systematic decrease in number of customer complaints, there is still a risk of complaints about products sold in the past.

Merger of companies

On 9 August 2016 the Bank's Management Board and Supervisory Board expressed their positive opinion about the intention to start the merger project of Noble Funds TFI S.A. (Acquiring Company) and Open Finance TFI S.A. (Acquired Company). On 24 August 2016 the plan of merger Noble Funds TFI S.A. and Open Finance TFI S.A. was signed. Merger of companies will take place in accordance with art. 492 § 1 point 1 Code of Commercial Companies, by transferring the entire assets of the Acquired Company to the Acquiring Company (merger by acquisition) with the simultaneous increase of the share capital of Noble Funds TFI S.A. through a new share issue, which Noble Funds TFI S.A. will grant to Open Finance TFI S.A. shareholders. As a result of the merger, the shareholders of Open Finance TFI S.A. will become shareholders of Noble Funds TFI S.A. as of the date of the merger. In connection with the merger, the shareholders of Open Finance TFI S.A. in exchange for Open Finance TFI S.A. shares will receive Noble Funds TFI S.A. shares in the following ratio: 63.8174931 shares of Open Finance TFI S.A. with a nominal value of PLN 1.00 each for 1 share of Noble Funds TFI S.A. with a nominal value of PLN 5.00. It is expected that the transaction will be finalized in the first half of 2017. Due to the planned transaction, Getin Noble Bank S.A. predicts the loss of control over the merged entity.

Transformation of BPI Bank Polskich Inwestycji S.A. to Mortgage Bank

The bank is going to obtain a mortgage license by the end of 2017 and commence operations with the beginning of 2018. The planned mortgage bank – Getin Noble Bank Mortgage (GNB BH) will be a specialized banking unit within the Getin Noble Bank S.A. Capital Group. Its task will be to acquire long-term, stable funding through mortgage bond issues. In the first place, mortgage bonds will finance the Group's existing mortgage loans portfolio and will continue to provide current mortgage financing. The mortgage loan portfolio of the mortgage bank will be assets that meet the requirements for entry in the mortgage security register. The ability to transfer a mortgage portfolio and to refinance through mortgage bonds is closely related to obtaining a mortgage license.

7. Corporate governance

7.1. Compliance with best practices

The principles of corporate governance included in "Best Practice for GPW Listed Companies 2016"

In 2016 Getin Noble Bank S.A. complied with the corporate governance rules as described in "Best Practice for GPW Listed Companies 2016" ("Best Practice 2016") launched by Resolution No. 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board dated 13 October 2015, with the exclusion of the recommendations described below.

The document can be accessed at the official website of the Warsaw Stock Exchange under http://www.gpw.pl/dobre_praktyki_spolek_regulacje.

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

1) real-life broadcast of the general meeting;
2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;
3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

In 2016 the Bank did not apply the above recommendation for technical and economic reasons (this is not justified by the shareholding structure), including the lack of appropriate ICT solutions and the associated risk of irregularities in the course of the meeting, as regards the identification of shareholders, quality of connection, the validity of the adopted resolutions and possible subsequent appeals. These risks, due to the subject of the resolutions adopted significant for the Bank's operations had to be limited. In addition, significant costs associated with servicing communication with shareholders or their plenipotentiaries in the Bank's opinion were disproportionate to potential benefits.

Considering, however, the development of technology and the growing market experience in the use of e-meetings, the Bank's Management Board undertook actions to prepare the Bank to implement this principle by entering into the Statute and the Rules of the General Meeting relevant provisions regulating the manner and mode of action in the subject matter.

In addition, the Bank decided to make available the ability to follow live meetings of the General Meeting of Shareholders as well as recordings of their progress at www.gnb.pl.

IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

Securities issued by a company are not traded in different countries (or in different markets) or under different legal systems.

Due to the fact that the GPW Rules in par. 29 point 3 obliges the companies to publish the report only if the particular rule is not deliberately applied, and not the recommendation, on 1 January 2016 the Bank was not obliged to publish a report on non-compliance with any of the recommendations.

Since 1 January 2016 the Bank's website provides information on the Bank's application of the recommendations and principles contained in Good Practices 2016 (http://www.gnb.pl/lad-korporacyjny). This information, prepared on the form set by the GPW, indicates the detailed state of compliance or non-compliance with each of the recommendation and principle and is directly applicable to the rule I.Z.1.13.

Principles of corporate governance for supervised institutions issued by the Polish Financial Supervision Authority

With Resolution No. 218/2014 of 22 July 2014 the Polish Financial Supervision Authority adopted the *Principles of corporate governance for supervised* institutions (hereinafter referred to as the "Principles"). As expected by the PFSA, a compliance analysis was carried out at the Bank, whereby, where necessary, actions were taken to adjust the internal regulations to the requirements indicated by the supervisor. As a consequence, all of the Bank's bodies have adopted resolutions on compliance with the above regulations within their scope (Resolution No. XXII / 12/05/2015 of the General Meeting of 12 May 2015, Resolution No. 125/2014 of the Supervisory Board dated 23 December 2014 and Resolution No. 2556/2014 of the Bank's Management Board dated 10 December 2014).

In December 2015, in connection with the convening of the Extraordinary General Meeting, according to the provisions of the Rules, the Bank informed about the waiver from the rule described in §8 par. 4:

A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting.

Non-compliance was justified by the lack of sufficiently proven technical solutions and the associated risk of irregularities in the course of the assembly, among others as regards the identification of shareholders, the quality of connection, the validity of the adopted resolutions and possible subsequent appeals. These risks, due to the subject of the resolutions adopted significant for the Bank's operations had to be limited.
Nevertheless, the Bank, in order to reduce the risk of non-application of the aforementioned principle, has made it possible to follow the live meetings of the General Meeting of Shareholders, whose records are posted on the website www.gnb.pl.

The Bank's shareholders with major shareholding

The ownership structure of significant batches of the Bank shares as of the date of this report according to the information available to the Bank is as follows:

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

Special rights and limitations concerning the Issuer's equity securities

All shares of Getin Noble Bank S.A. are ordinary bearer shares with no special control rights.

The Bank's Articles of Association does not introduce any limitations concerning voting rights, like limitation for holders of specific share or amount of shares or time limits concerning execution of voting rights. It also does not contain resolutions regarding separation of capital rights and shareholding.

There are also no limitations in trading in equity securities issued by the Bank.

7.2. Supervisory and management authorities of the Bank

The functioning and rights of the General Shareholders Meeting

The General Shareholders Meeting is the superior governing body of the Bank. The General Meeting is convened as an ordinary or extraordinary one pursuant to the generally applicable regulations, the Bank's Articles of Association and the Rules of the General Shareholders Meeting. Corporate documents are available at the Bank's website.

The General Shareholders Meeting, among other matters specified in the Bank's Articles of Association, has the authority to:

- review and approve the Bank's financial statements for the previous financial year,
- review and approve the Directors' Report on the Bank's operations in a financial year,
- adopt resolution on the distribution of profits or covering of losses,
- acknowledge the fulfilment of duties by the members of Supervisory and Management Board,
- appoint and dismiss members of the Supervisory Board,
- amend the Bank's Articles of Association,
- adopt resolutions to increase or decrease the Bank's share capital,
- adopt resolutions on the redemption of the Bank's shares, terms and conditions thereof,
- adopt resolutions on issuing convertible bonds or bonds with pre-emptive rights to acquire shares and subscription warrants,
- adopt resolutions to sell or lease the company's business or an organised part thereof and to establish a limited property right thereon,
- adopt resolutions on other matters brought to the General Meeting by authorised entities and restricted for its competence by law and the Articles of Association.

The Company's shareholders exercise their rights pursuant to the generally applicable regulations, the Bank's Articles of Association and the Rules of the General Shareholders Meeting.

Amendments to the Bank's Articles of Association

Amendments to the Bank's Articles of Association are made by the General Meeting, in a way and course defined in Code of Commercial Companies, so the amendments require the resolution of the General Meeting and National Court Register entry. Moreover, according to art. 34 par. 2 of Banking Law Act, the amendments in the Bank's Articles of Association concerning the privilege or limitation of voting rights in the Bank being a joint stock company, require the approval of the Polish Financial Supervision Authority, as well as the following amendments:

- Bank's name,
- the registered office, scope of Bank's activities with the consideration of transactions mentioned in art. 69 par. 2, point 1-7 of the act dated 29 July 2005 on trade in financial instruments, which the Bank is going to execute according to art. 70 par. 2 of the act,
- the Bank's authorities and their competencies, with particular consideration of competencies of the Management Board members, which are mentioned in art. 22b par. 1 of the Banking Law Act, and the rules of decision making, Bank's basic organizational structure, the rules of making statements on property rights and duties, course

of establishing internal regulations and course of making decisions on assuming obligations or disposal of assets, which total value in relation to one subject exceeds 5% of the equity,
- rules of the internal control system,
- the Bank's equity and principles of its financial economy.

Composition and functioning of the Supervisory Board

The Supervisory Board shall act pursuant to provisions of the Banking Law Act, the Commercial Companies Code, other universally binding applicable regulations and pursuant to the Articles of Association and Rules of the Supervisory Board. The Supervisory Board shall exercise on-going supervision over the Bank's business to the extent provided for by the laws referred to above. The Supervisory Board shall consist of 5 to 8 members appointed and dismissed by the General Meeting in a course determined in the Articles of Association. The Supervisory Board shall exercise its duties collectively, however may delegate its members to exercise separate supervisory duties individually. Members of the Supervisory Board shall be appointed for the joint term of office of three years.

As at the date of this report, the composition of the Bank's Supervisory Board was as follows:

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

In 2016 there were no changes in the composition of the Supervisory Board of the Bank.

Audit Committee

The tasks of the Audit Committee are executed by the whole Supervisory Board of the Bank. The objective of executing by the Supervisory Board the tasks of Audit Committee is fulfilling its supervisory duties within the processes of financial reporting, risk management, internal control system and audit process. The Supervisory Board appointed coordinator for the tasks of the Audit Committee and the permanent advisor of the Supervisory Board, who shall be obliged to assist the Supervisory Board in matters related to the exercise by the Supervisory Board tasks of Audit Committee, which include, in particular:

- monitoring of the financial reporting process,
- monitoring of the effectiveness of the internal control and risk management systems,
- monitoring of the work of the internal audit,
- monitoring of the financial review activities in the company and monitoring the independence of the auditor and the company entitled to audit financial statements.

The Supervisory Board in the exercise of the tasks of the Audit Committee may request the Board of Directors and employees of certain information in the field of accounting, finance, internal control, internal audit and risk management, which is necessary to carry out its activities.

Personnel Committee

The Committee consists of two members appointed by the Supervisory Board among its Members, an absolute majority of votes. In its activities Committee takes into consideration careful and stable risk management, equity and liquidity, with particular attention to the long-term welfare of the Bank as well as satisfying the expectations of shareholders and investors. Among the activities of Remuneration Committee is issuing an opinion on the policy of the variable components of the remuneration of managers at the Bank, including in particular the amount and components of remuneration. The Committee monitors and issues an opinion on remuneration of managers related to risk management as well as compliance of the Bank activities with law and internal regulations.

Risk Committee

The Risk Committee's essential function is consulting and advisory services to the Supervisory Board. Its work consists mainly of issuing opinions on the current and future readiness of the Bank to take risk and risk management strategies in the Bank's activities. In addition, the Risk Committee verifies how the Bank's business model and its strategy in terms of risk are reflected in the prices of assets and liabilities offered to customers.

The composition, principles, appointing, dismissing and rights of the Management Board

The Bank's Management Board acts on the basis of provisions of the Act of 29 August 1997 – the Banking Law, the Act of 15 September 2000 – Code of Commercial Companies, the Bank's Articles of Association and the Rules of the Management Board, which defines the detailed scope of organization and procedures for the Management Board's acting and procedures of adopting resolutions, making decisions and expressing opinions. The Management Board manages the affairs of the Bank and represents it outside. The members of the Management Board fulfil their duties personally. The Management Board makes decision within its competencies during the meetings convened in accordance with provisions of the Management Board's Rules. The Management Board's meetings hold at least once a week and are convened by the President of the Management Board, who also chairs them. In case of his absence, the President is replaced by the First Vice-President, Vice-President or another member of the Management Board indicated by the President. Conclusions of the Management Board's meetings are made through resolutions. In order for a resolution to be valid the presence of majority of the Management Board members is required. The participation in a meeting is also possible by means of remote communication, especially by means of phone or video communication, enabling identification of meeting participant. The Management Board's resolutions shall be passed by the absolute majority of the votes. In case of equality of votes, the vote of the Management Board's President is decisive. After fulfilment of conditions determined in the Rules of the Management Board, resolutions may be adopted by the Management Board also in special course, without convening and taking place of the Management Board, i.e. (i) by circular by means of remote communication, particularly by voting with the use of e-mail, or fax and then placing a signature to resolutions by the Management Board's members in accordance with given vote, (ii) by voting in writing by signing by each member of the Management Board of proposed resolution (cards with signatures of the Management Board's members to given resolution) with indication whether member votes "for", "against" or "abstain from voting" and submitting signed resolution to the Management Board's President.

The Bank Management Board's composition as at the date of this report was as follows:

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

In the 12-month period ended 31 December 2016 and until the date of approval of this report, the following changes took place in the composition of the Bank's Management Board:

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

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

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

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

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

Committees

According to the Head Office Organisational Regulations adopted by the Board, at the Bank operate the following committees, which operate under separate internal arrangements:

Asset and Liability Committee

Asset and Liability Committee (ALCO) acts as a consultative and advisory body, assisting the Bank's Management Board in the effective management of assets and liabilities of the Bank to ensure the implementation of the current financial plans and secure long-term development of the Bank. The scope of ALCO includes mainly: liquidity risk, interest rate risk, currency risk, capital risk.

Credit Risk Committee

Credit Risk Committee serves as an advisory body in the process of credit risk management in the Bank. The purpose of its operations is recommending a specific procedure in the field of the cases related to the Bank's credit risk and initiating activities of the credit risk management in relation to the Bank's organisational units responsible for credit risk management process.

Credit Committee of the Bank

The Bank's Credit Committee is the consultative and/or decision-making body, according to the credit decision mode adopted in the Bank, dealing with all matters relating to the credit risk of the ongoing transactions. In assessing the credit risk, the Credit Committee considers matters related to the lending activity, such as: requests for a loan or other type of engagement being beyond the competence of individual units, and applications for a loan containing derogations from the existing procedures and internal regulations; applications for setting exposure limits to customers of the Bank and exposure limits to borrowers, issuers and other banks. The Bank's Credit Committee consists of four members and their deputies, including the Chairman and Vice Chairman (s) who are appointed by the CEO from among the members of the Bank's Management Board or employees of the Bank with the principle that person who are called by virtue of his post are responsible for reviewing claims and management of credit risk in the Bank.

Advisory Committee of the Bank

The Advisory Committee supports Credit Committee of the Bank and consists of two to four members appointed by the Member of the Management Board responsible for the Credit Risk and Debt Collection. The key activities of the Committee are to analyse credit applications (i.a. mortgage loans) including verification of client, investment, collateral and giving and opinion on the application. Recommendations given by the Advisory Committee are not valid. The deliberations of the Committee held an ad hoc basis, by teleconference or, exceptionally using e-mail.

Credit Committee of the Mortgage and Corporate Credit Acceptance Centre

The Credit Committee of the Mortgage and Corporate Credit Acceptance Centre operates at the Credit Committee of the Bank. It is responsible for process of assessment and approval of loan applications from corporate customers and undertakes projects to ensure the safe conduct of banking activities in this area. The committee members are appointed by a decision of the Board Member supervising the finance area.

Operational Risk Committee

Operational Risk Committee fulfils the supporting role to the Bank's Management Board with regard to: operational risk management - through the exercise of consultative and advisory functions in the process of operational risk management and the management of compliance risk - because of its close association with the legal risk constituting a category of operational risk – by the performance of advisory function, recommending specific procedure for the management of compliance risk.

Investment Product Committee

The Bank's Investment Product Committee is the consultative body dealing with all issues related to the assessment of the adequacy of the offered investment products to the needs of customers of the Bank. Committee performs its duties in accordance with the principles of transparency of the structure of products and its documentation.

Commercial Committee

The Commercial Committee is a consultative and decision-making body, which results from the Bank's mode of decision-making in the development and changes of the Banking Product. The Committee as part of its activities also fulfils the role of supporting the Management Board by monitoring of key indicators for the customer base of the Bank, various segments of customers and sales and financial results – in terms of key banking products and accepting initiatives – important from the perspective of business development, with a view to ensure the implementation of current financial plans and to secure long-term development of the Bank.

Data Quality Committee

The Data Quality Committee fulfils the supporting role to the Bank's Management Board with regard to: management of data classified in significant groups of data, monitoring of data quality verification, assuring high quality of data in the Bank, consulting the development plans for standards affecting the data quality. The aim of the Data Quality Committee is, among others, to recommend actions ensuring high data quality to the Management Board, as well as taking actions aiming at quality data promotion. Members of the Data Quality Committee are appointed by a decision of the President of the Management Board. The Committee is led by the Chairman of the Committee, who sets the dates of meetings, at least once a quarter.

Property Acquisitions Committee

The Property Acquisitions Committee is a consultative and / or decision-making body dealing with all issues related to the takeover of property by the Bank under the debt collection processes conducted by the Debt Collection Area, in both voluntary and enforcement. In the process of property takeover the Committee issues opinions on proposals of the Debt

Collection Area for matters being subject to decisions of the Management Board and takes decisions on proposals submitted by the Debt Collection Area according its competences granted in this regard.

Cost and Remuneration Committee

The Costs and Remuneration Committee is a consultative and decision-making body to ensure cost control in the Bank.

Remuneration of the Supervisory Board and the Management Board

The table below shows amount of remuneration (excluding employment costs) paid to individual members of the Management Board of Getin Noble Bank S.A. in 2016:

01.01.2016 – 31.12.2016	Salary PLN thousand	Other benefits * PLN thousand
Krzysztof Rosiński	2,291	177
Artur Klimczak	2,398	285
Krzysztof Basiaga	741	62
Marcin Dec	660	87
Karol Karolkiewicz	420	96
Radosław Stefurak	1,472	239
Maciej Szczechura	540	86
Grzegorz Tracz (until 06.2016)	302	162
Total remuneration of the Management Board	**8,824**	**1,194**

* Other benefits include mainly bonuses resulting from variable remuneration policy.

01.01.2016 – 31.12.2016	Salary PLN thousand
dr Leszek Czarnecki	333
Remigiusz Baliński	121
Krzysztof Bielecki	151
Mariusz Grendowicz	151
Jacek Lisik	153
Total remuneration of the Supervisory Board	**909**

Remuneration of members of the Bank's Management Board due to their functions in governing bodies of subsidiaries, joint ventures and associates are presented below:

	01.01.2016– 31.12.2016 PLN thousand
Krzysztof Rosiński	300
Krzysztof Basiaga	138
Karol Karolkiewicz	240
Radosław Stefurak	204
Maciej Szczechura	1
Grzegorz Tracz	2
Jacek Lisik	24
Remuneration of members of the Bank's Management Board due to their functions in governing bodies	**909**

	01.01.2016– 31.12.2016 PLN thousand
Remuneration of members of the subsidiaries Management Boards	11,202
Remuneration of members of the subsidiaries Supervisory Boards	30

Bank's agreements with members of the Management Board

The contracts of Members of the Management Board of the Bank envisage a payment of additional remuneration amounting to salary received and due within full 6 calendar months following the agreement termination date in case of termination of agreement by the Company or dismissal of Manager from the function in the Company's Management Board before the lapse of the term on which agreement was concluded, except for termination of agreement without notice in case of gross breach of provisions of the agreement.

Holdings of the Bank shares by managing and supervising persons

Holdings of shares of Getin Noble Bank S.A. by managing and supervising persons after the share consolidation in ratio 3:1 as at the date of the report are the following:

Members of the Supervisory and Management Board	Function	Number of shares on the own account
Leszek Czarnecki [1]	President of the Supervisory Board	88,208,870
Remigiusz Baliński	Vice-President of the Supervisory Board	173,844
Marcin Dec	Member of the Management Board	124,921
Karol Karolkiewicz	Member of the Management Board	25,579
Radosław Stefurak	Member of the Management Board	42,105
Maciej Szczechura	Member of the Management Board	7,646

1) To the best knowledge of Mr. Leszek Czarnecki, his subordinate entities own the following shares of the Bank: LC Corp B.V. – 337,237,517 shares, Getin Holding S.A. – 66,771,592 shares, Fundacja Jolanty i Leszka Czarneckich – 1,173,091 shares, RB Investcom sp. z o.o. – 33,950 shares, Idea Money S.A. – 2,600 shares.

7.3. Internal control and risk management systems relating to the financial statements

The process of preparation of financial statements in Getin Noble Bank S.A. is realised within Financial Department, and its basis is the accounting policy adopted by the Management Board of the Bank and accounting organisation in the Bank. The substantive control of the preparation of the financial statements is exercised by the Director of the Accounting Department of the Bank and the Member of the Management Board supervising the financial department.

In order to ensure true and fair information in the financial statements, in the Bank exists an internal control system, being the element of the Bank's management system. The internal control system is adapted to the organisational structure of the Bank and includes the organisational units of the Bank, the Bank's branches and subsidiaries.

The internal control system consists of the following items:

- risk control mechanisms – relate to all employees and include procedures relating to banking and banking activities, limits and self-control tasks performed in order to mitigate errors in the Bank's operations, to report deficiencies and to ensure the fairness of accounting records,
- functional control – performed by every employee with respect to quality and correctness of performing their tasks, as well as performed by their direct supervisors and their co-workers, resulting from the organisational structure of the Bank,
- institutional control/ internal audit – performed by the separated and independent unit – Internal Audit Department, whose objective is to identify and assess the risk in each area of the Bank's operations.

The objective of the internal control system is to support the Bank's management, including decision processes, which lead to ensure effectiveness of the Bank's operations, credibility of the financial reporting and compliance with the legal acts and internal regulations through ensuring the compliance of the performed tasks with the procedures and ongoing reaction for irregularities, and monitoring of the effectiveness of the implemented control mechanisms. As a part of the internal control systems the Bank identifies the risk relating to each operation, transaction, product and process resulting from the organisational structure of the Bank.

Significant task of the internal control system is to secure the assets, to review of loan exposures, to mitigate and to identificate errors in data processing, to ensure the credibility of the accounting records, to improve the effectiveness of operations and to stimulate the complying with the agreed strategy and policy of the Bank.

Operating of the internal control system and risk management with respect to the financial statements preparation process are based on the control mechanisms embedded in the reporting systems and on the ongoing verification of the compliance with the accounting records and other documents underlying the financial statements as well as the regulations regarding the accounting standards and financial reporting.

The control mechanisms cover the tasks performed in the Bank including: competences, regulations, limits and procedures relating to the activities of Getin Noble Bank S.A. and control activities performed by its employees and its supervisors, which relate to the performed activities. Mechanisms are of control nature and are incorporated both in the internal regulations and IT system of the Bank. In addition, the Management Board of the Bank takes actions to ensure the continuity of monitoring the effectiveness of internal controls and to identify areas of business, operations, transactions and other activities designed for continuous monitoring.

Entity entitled to audit financial statements

On 6 may 2016 the Supervisory Board of the Bank made the resolution on the appointment of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw as the statutory auditor of the financial statements for 2016. The agreement with respect to the review of the interim separate and consolidated financial statements as well as audit of the annual separate and consolidated financial statements was signed on 15 May 2016. The Bank used the services of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for the audit of financial statements for 2012-2015.

The information on the remuneration from contracts concluded with the auditor has been presented in the note II.46 to the financial statements of Getin Noble Bank S.A. and in the note II.49 to the consolidated financial statements of the Getin Noble Bank S.A. Capital Group for the year ended 31 December 2016.

8. Corporate social responsibility

Getin Noble Bank S.A. actively engages his employees in CSR actions. One such initiative is the cyclical Fair Play running event. More than 1,800 employees and friends of Getin Noble Bank took part in this year's edition in Katowice. It was a charity event – PLN 20 thousand were donated for the treatment and rehabilitation of David, son of the Bank employee. Promoting healthy living and sport is an idea that also accompanies the official Getin Noble Bank Run Team. It is made up of more than 100 people taking part in the biggest running events in Poland.

In 2016 the Bank employees once again engaged in the honour blood donation Getin Crew, combined with the registration of bone marrow donors. Blood collection, carried out in co-operation with the Regional Blood Donors and Blood Donors Centres, was held in parallel in three headquarters of the Bank – in Wrocław, Katowice and Warsaw.

In 2016 the calendar of social events of Getin Noble Bank S.A. has been extended to include a new initiative, "Become Santa Claus ". By joining in the campaign, the Bank employees prepared more than 700 Christmas parcels for needy children from care and education centres throughout Poland. As part of the annual initiatives, the Bank employees have organized for the fourth time also the charity collection for local animal shelters.

9. Additional information

Significant agreements

On 10 February 2016 Getin Noble Bank S.A. signed with LC Corp B.V. a sale agreement of 50.72% shares of Getin Leasing S.A. The value of the transaction amounted to PLN 218 million. The transaction was part of the strategy to strengthen the Bank's capital position, which the Management Board presented to the Polish Financial Supervision Authority.

On 4 April 2016 GNB, Towarzystwo Ubezpieczeń Europa S.A., Towarzystwo Ubezpieczeń na Życie Europa S.A. and Open Life Life Towarzystwo Ubezpieczeń na Życie S.A. signed an annex to the strategic partnership agreement and an annex to the agreement on additional remuneration dated 14 December 2011.
The annexes were subject to a condition precedent (acquisition by LC Corp BV of all shares in the share capital of Open Life Towarzystwo Ubezpieczeń Życie S.A. owned by Towarzystwo Ubezpieczeń Europa S.A.), which was fulfilled on 20 December 2016.

On 21 March 2016 GNB signed with Idea Bank S.A. and Getin Leasing S.A., Getin Leasing Spółka Akcyjna 2 Spółka komandytowo-akcyjna and Getin Leasing Spółka Akcyjna 3 Spółka komandytowo-akcyjna general contract of sale of lease receivables. The contract has been concluded for an indefinite period of time, but not longer than the time for its completion, i.e. until the agreements resulting in receivables that are subject to purchase and then sale. The contract was not concluded subject to the condition or deadline, and the remaining provisions, as per GNB knowledge, do not differ from the terms commonly used for such contracts. The initial value of the debts purchased and then sold by GNB was PLN 150 million. This amount by subsequent annexes was increased first to PLN 400 million, then to PLN 600 million, and then to PLN 700 million. For purchased receivables Idea Bank S.A. pays to Getin Noble Bank S.A. a consideration determined with a discount rate, the amount of which is the 3M WIBOR reference rate increased by a fixed margin.

On 19 December 2016 GNB entered into an agreement to sell registered shares of Biuro Informacji Kredytowej S.A. to Idea Bank S.A. Under the terms of the agreement, the Issuer sold 1,700 series A registered shares with a nominal value of PLN 1,000 each, representing 10.93% of the share capital of the company and 10.93% of the total number of votes at the General Meeting of Shareholders for a total price of PLN 50 million. Under the terms of the agreement, GNB will be granted a dividend for the financial year 2016. Consequently, Idea Bank S.A. undertook to pay to the Issuer the amount resulting from the right to dividend, provided that Idea Bank S.A. will be granted the right.

Changes in the basic principles of managing the company

In 2016 there were no significant changes with respect to the methods of managing the Bank.

The Bank's co-operation with international public institutions

In 2016 Getin Noble Bank S.A. continued its co-operation with the European Investment Bank (EIB) under already signed agreements.

Information on significant agreements between the Bank and the central bank or supervision authorities

In 2016 Getin Noble Bank S.A. did not conclude any significant agreements with the central bank or supervision authorities. The Bank co-operates on a regular basis with the National Bank of Poland under already signed agreements.

Explanation of differences between actual financial results and previously published forecasts

Getin Noble Bank S.A. did not publish forecasts for 2016 financial results.

Description of the use of the proceeds from the issue of securities by the Issuer

In 2016 Getin Noble Bank S.A. made further issues of bonds under the Public Subordinated Bond Issuance Program approved by the Supervisory Board on 13 July 2015, and gathered in total PLN 220 million. Upon expiry of this program, the Bank continued to issue subordinated bonds under the new Public Subordinated Bond Issue Program approved by the Supervisory Board on 9 August 2016, gaining an additional PLN 120 million.

The purpose of the bond issue is to raise the Bank's own funds, allowing it to further develop its business. In 2016 the Polish Financial Supervision Authority agreed to include in the own funds the amount of PLN 300 million acquired by Getin Noble Bank S.A. under the issue of subordinated bonds.

Execution titles and value of collaterals

In 2016 there were 21,185 execution titles issued of the total value of PLN 1 billion. The fair value of the collaterals for individually impaired loans calculated as the sum of discounted future cash flows from collaterals, repayments and settlements as well as recovery of the loans amounted to PLN 1.35 billion as at the end of 2016.

Loans and borrowings taken

In 2016 Getin Noble Bank S.A. nor its subsidiaries have concluded or terminated loan or borrowing agreement.

Significant legal proceedings

In 2016 the entities of the Getin Noble Bank S.A. Capital Group were not subject to any proceedings relating to liabilities or receivables which value would exceed 10% of the consolidated equity.

Information on the control system in employee share schemes

There are no employee share schemes in the Bank.

10. Statements of the Management Board

10.1. Truth and fairness of the financial statements

According to the best knowledge of the Management Board, the consolidated financial statements of the Getin Noble Bank S.A. Capital Group and the financial statements of the Getin Noble Bank S.A. for the year ended 31 December 2016 and the comparative data have been prepared in accordance with the International Financial Reporting Standards and reflect the economic and financial standing of the Group and the Bank and the Group's and the Bank's financial result in a true, fair and transparent way.

Furthermore, the Directors' Report on activities of the Getin Noble Bank S.A. Capital Group and Getin Noble Bank S.A. gives a true view of the development, achievements and situation of the Group in 2016, including a description of the key threats and risks.

10.2. Appointment of the auditor of the financial statements

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – the auditor of the consolidated financial statements of the Getin Noble Bank S.A. Capital Group and the financial statements of the Getin Noble Bank S.A. for the year ended 31 December 2016 was appointed in compliance with the law. This entity and its certified auditors performing the audit fulfilled conditions for expressing the unbiased and independent opinion on the audited annual financial statements, in accordance with the applicable law and professional standards.

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

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Artur Klimczak
acting President of the Management Board

____
Jerzy Pruski
Vice President of the Management Board

____
Krzysztof Basiaga
Member of the Management Board

____
Marcin Dec
Member of the Management Board

____
Karol Karolkiewicz
Member of the Management Board

____
Radosław Stefurak
Member of the Management Board

____
Maciej Szczechura
Member of the Management Board

Warsaw, 13 March 2017