GETIN NOBLE BANK S.A.

Financial statements

for the year ended 31 December 2016

with the auditor's report

Warsaw, March 2017

Selected financial data

Income statement	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 (restated) PLN thousand	01.01.2016-31.12.2016 EUR thousand	01.01.2015-31.12.2015 (restated) EUR thousand
Net interest income	1,279,647	1,156,759	292,444	276,419
Net fee and commission income	58,977	266,077	13,478	63,582
Profit before tax	138,945	35,192	31,754	8,409
Net profit	109,003	12,786	24,911	3,055
Total comprehensive income for the period	44,745	57,338	10,226	13,701
Net cash flows	418,117	(151,714)	95,554	(36,254)

Statement of financial position	31.12.2016 PLN thousand	31.12.2015 (restated) PLN thousand	31.12.2016 EUR thousand	31.12.2015 (restated) EUR thousand
Loans and advances to customers	47,442,162	50,455,467	10,723,816	11,839,837
Total assets	66,878,359	71,762,389	15,117,170	16,839,702
Amounts due to customers	53,105,936	55,812,803	12,004,054	13,096,985
Total equity	5,128,445	5,083,700	1,159,233	1,192,937
Tier 1 capital	4,932,476	4,899,158	1,114,936	1,149,632
Tier 2 capital	1,363,985	1,472,065	308,315	345,434
Total capital ratio	15.7%	14.1%	15.7%	14.1%
Number of shares *	883,381,106	883,381,106	883,381,106	883,381,106

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

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

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

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I. FINANCIAL STATEMENTS

1. Income statement

	Note	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 (restated) PLN thousand
CONTINUED ACTIVITY			
Interest income	II.7	2,781,148	3,021,478
Interest expense	II.7	(1,501,501)	(1,864,719)
Net interest income		**1,279,647**	**1,156,759**
Fee and commission income	II.8	217,461	438,406
Fee and commission expense	II.8	(158,484)	(172,329)
Net fee and commission income		**58,977**	**266,077**
Dividend income	II.9	84,945	31,728
Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains	II.10	22,961	20,908
Result on other financial instruments	II.11	84,736	28,220
Result on investments in subsidiaries, associates and joint ventures	II.12	209,604	131,187
Other operating income	II.13	36,744	30,960
Other operating expense	II.13	(101,150)	(96,863)
Net other operating income and expense		**(64,406)**	**(65,903)**
Administrative expenses	II.14	(807,900)	(1,128,927)
Net impairment allowances on financial assets and off-balance sheet provisions	II.15	(687,958)	(416,524)
Operating profit		**180,606**	**23,525**
Share of profits/(losses) of associates under the equity method	II.25	(3,388)	11,667
Tax on certain financial institutions		(38,273)	-
Profit before tax		**138,945**	**35,192**
Income tax	II.16	(29,942)	(22,406)
Net profit		**109,003**	**12,786**

Details for restatement of comparative data for 2015 are presented in Note II 4.7.

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

2. Statement of comprehensive income

	Note	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 (restated) PLN thousand
Net profit for the period		**109,003**	**12,786**
Items that will not be reclassified to profit or loss, of which:		**130**	**35**
Actuarial gains/(losses)	II.36	160	43
Tax effect related to items that will not be reclassified to profit or loss	II.16	(30)	(8)
Items that may be reclassified to profit or loss, of which:		**(64,388)**	**44,517**
Valuation of available-for-sale financial assets		(94,235)	(2,230)
Cash flow hedges	III.7	14,744	57,189
Tax effect related to items that may be reclassified to profit or loss	II.16	15,103	(10,442)
Net other comprehensive income/(loss)		**(64,258)**	**44,552**
Total comprehensive income for the period		**44,745**	**57,338**

Details for restatement of comparative data for 2015 are presented in Note II 4.7.

3. Statement of financial position

	Note	31.12.2016 PLN thousand	31.12.2015 (restated) PLN thousand	01.01.2015 (restated) PLN thousand
ASSETS				
Cash and balances with the Central Bank	II.17	3,152,193	2,724,460	2,840,565
Amounts due from banks and financial institutions	II.18	996,550	2,008,466	1,410,839
Financial assets held for trading	II.19	2,411	-	-
Financial assets measured at fair value through profit or loss	II.20	171,972	166,817	170,371
Derivative financial instruments	II.21	90,586	159,074	242,013
Loans and advances to customers	II.22	47,442,162	50,455,467	49,114,355
Financial assets, of which:	II.23	11,905,768	12,390,902	11,328,004
available-for-sale		11,703,127	12,236,580	11,232,147
held-to-maturity		202,641	154,322	95,857
Investments in subsidiaries, associates and joint ventures	II.25	1,330,961	1,321,746	823,591
Intangible assets	II.26	282,689	264,055	219,983
Property, plant and equipment	II.27	180,210	202,371	190,619
Investment properties	II.28	421,262	478,585	378,531
Non-current assets held for sale	II.30	21,604	19,432	4,494
Income tax assets, of which:	II.16	322,910	335,920	374,609
receivables relating to current income tax		-	4,031	13,215
deferred tax assets		322,910	331,889	361,394
Other assets	II.31	557,081	1,235,094	731,464
TOTAL ASSETS		**66,878,359**	**71,762,389**	**67,829,438**
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to banks and financial institutions	II.32	2,254,148	3,457,657	4,451,229
Derivative financial instruments	II.21	1,660,662	1,519,279	742,340
Amounts due to customers	II.33	53,105,936	55,812,803	53,092,293
Debt securities issued, of which:	II.34	2,604,936	2,829,820	3,313,904
subordinated debt		2,428,877	2,124,286	2,092,427
Current income tax liabilities		870	-	-
Other liabilities	II.35	2,103,440	3,037,409	1,179,955
Provisions	II.36	19,922	21,721	23,355
Total liabilities		**61,749,914**	**66,678,689**	**62,803,076**
Equity				
Share capital	II.37	2,411,630	2,650,143	2,650,143
Retained earnings		235,992	224,325	546,672
Net profit		109,003	12,786	-
Other capital	II.38	2,371,820	2,196,446	1,829,547
Total equity		**5,128,445**	**5,083,700**	**5,026,362**
TOTAL LIABILITIES AND EQUITY		**66,878,359**	**71,762,389**	**67,829,438**

Details for restatement of comparative data for 2015 are presented in Note II 4.7.

4. Statement of changes in equity

2016	Share capital	Retained earnings	Net profit	Other capital: Reserve capital	Other capital: Revaluation reserve	Other capital: Other capital reserves	Total equity
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 01.01.2016	**2,650,143**	**237,111**	**-**	**2,277,449**	**(121,574)**	**40,571**	**5,083,700**
Comprehensive income for the period	-	-	109,003	-	(64,258)	-	**44,745**
Reduction of the share capital	(238,513)	-	-	-	-	238,513	-
Distribution of last year profit	-	(1,119)	-	1,119	-	-	-
As at 31.12.2016	**2,411,630**	**235,992**	**109,003**	**2,278,568**	**(185,832)**	**279,084**	**5,128,445**

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 238,513 thousand, by reduction of the nominal value of one share from PLN 1.00 to PLN 0.91. The amount resulting from the share capital reduction was transferred to a separate reserve fund.

2015 (restated)	Share capital	Retained earnings	Net profit	Other capital: Reserve capital	Other capital: Revaluation reserve	Other capital: Other capital reserves	Total equity
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 01.01.2015	**2,650,143**	**322,347**	**-**	**1,955,102**	**(166,126)**	**40,571**	**4,802,037**
Adjustments for changes in accounting policies	-	224,325	-	-	-	-	**224,325**
As at 01.01.2015 after adjustment	**2,650,143**	**546,672**	**-**	**1,955,102**	**(166,126)**	**40,571**	**5,026,362**
Comprehensive income for the period	-	-	12,786	-	44,552	-	**57,338**
Distribution of last year profit and cover of previous years losses	-	(322,347)	-	322,347	-	-	-
As at 31.12.2015	**2,650,143**	**224,325**	**12,786**	**2,277,449**	**(121,574)**	**40,571**	**5,083,700**

5. Statement of cash flows

	Note	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 (restated) PLN thousand
Cash flows from operating activities			
Net profit		109,003	12,786
Adjustments:		1,253,860	873,425
Amortisation and depreciation	II.14	75,004	66,581
Share of (profits)/ losses of associates		3,388	(11,667)
(Gains)/losses from investing activities		(132,468)	(4,038)
Interests and dividends		77,687	142,451
Change in amounts due from banks and financial institutions	II.43	1,002,300	(633,236)
Change in financial assets held for trading		(2,411)	-
Change in financial assets measured at fair value through profit or loss		(5,155)	3,554
Change in derivative financial instruments (assets)	II.43	68,879	83,722
Change in loans and advances to customers		3,013,305	(1,341,112)
Change in available-for-sale financial instruments	II.43	457,122	(1,006,240)
Change in held-to-maturity financial instruments	II.43	(12,486)	(1,562)
Change in other assets		678,013	(503,630)
Change in amounts due to banks and financial institutions	II.43	(553,165)	(999,442)
Change in derivative financial instruments (liabilities)	II.43	152,935	822,480
Change in amounts due to customers		(2,706,867)	2,720,510
Change in debt securities issued	II.43	2,136	(7,487)
Change in other liabilities		(933,969)	1,857,454
Change in provisions	II.43	(1,669)	(1,600)
Other adjustments		57,401	(352,002)
Income tax paid		(4,760)	(3,770)
Income tax		18,640	42,459
Net cash flows from operating activities		**1,362,863**	**886,211**
Cash flows from investing activities			
Sale of shares in subordinated entities		184,525	47,422
Sale of intangible assets and property, plant and equipment		116,395	16,682
Sale of investments in financial instruments		1,400	10,500
Dividends received	II.9	84,945	31,727
Interest received		4,343	3,495
Acquisition of shares in a subsidiary		(107,651)	(179,377)
Purchase of intangible assets and property, plant and equipment		(147,131)	(252,571)
Purchase of investments in financial instruments		(37,233)	(67,403)
Net cash flows from investing activities		**99,593**	**(389,525)**
Cash flows from financing activities			
Proceeds from issue of debt securities	II.34	340,000	524,733
Proceeds from loans taken		-	107,060
Redemption of issued debt securities	II.34	(567,020)	(1,001,330)
Repayment of loans		(650,344)	(101,190)
Interest paid		(166,975)	(177,673)
Net cash flows used in financing activities		**(1,044,339)**	**(648,400)**
Net increase/(decrease) in cash and cash equivalents		418,117	(151,714)
Cash and cash equivalents at the beginning of the period		2,757,246	2,908,960
Cash and cash equivalents at the end of the period	**II.43**	**3,175,363**	**2,757,246**

(data in PLN thousand)

II. NOTES TO THE FINANCIAL STATEMENTS

1. General information about the Bank

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

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

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

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

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

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

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

(data in PLN thousand)

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

Retail banking is conducted by the Bank under the Getin Bank Brand, which specializes in customer deposits and in the sale of retail loans. Getin Bank offers also a wide range of investment products and is an active player in the segment of financial services dedicated to small and medium-sized enterprises and to local governments. The private banking section, dedicated to wealthy clients, is conducted under Noble Bank Brand.

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

2. Composition of the bank's management board and the supervisory board

As of the date of approval of these financial statements composition of the Getin Noble Bank S.A. management and supervisory bodies were as follows:

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

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

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

On 14 December 2016 Mr. Krzysztof Rosiński resigned from the position of the President of the Management Board of the Getin Noble Bank S.A. with the effect from 9 January 2017. Simultaneously the Supervisory Board of the Bank appointed 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 of the Bank.

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

3. Approval of the financial statements

These financial statements were approved by the Management Board of the Bank on 13 March 2017.

4. Significant accounting policies

4.1. Statement of compliance

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

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

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

4.2. Basis of preparation

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

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

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

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

The Bank is in process of implementing new standard. Its final impact depends on the structure of assets as of the date of the first adoption of IFRS 9, and the adjustments for changes in accounting policies are to be recognized in equity. As of the date of these financial statements it is impossible to reliable estimate the impact of IFRS 9, primarily due to ongoing work on new credit risk models adjusted to the requirements of new standard.

Moreover, there are no updated prudential requirements that will be binding for the Bank and there is no clear interpretation of the new regulations as well as no market practice.

Simultaneously, the implementation of regulatory solutions related to currency conversion, foreign exchange spreads or the introduction of new additional capital surcharges on indexed/denominated mortgages is possible, which may also have a negative impact on the Bank's financial position.

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

4.3. Auditor of the financial statements

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

4.4. Identification of the consolidated financial statements

The Bank has also prepared the consolidated financial statements of the Getin Noble Bank S.A. Capital Group for the year ended 31 December 2016, covering Getin Noble Bank S.A. and its subsidiaries and associates – in accordance with the International Financial Reporting Standards as adopted by the European Union, which were approved for publication on 13 March 2017.

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

4.5. Functional and reporting currency

The financial statements are presented in Polish zloty (PLN), and all the figures, unless otherwise stated, are expressed in PLN thousands. The functional currency of the Bank and the reporting currency of the financial statements is the Polish zloty.

4.6. Changes in adopted standards and interpretations

Changes to existing standards adopted for the first time in the financial statements of the Bank for 2016

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

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures - Investment Entities - Applying the Consolidation Exception, as adopted by EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 *Joint Arrangements* - Accounting for Acquisitions of Interests in Joint Operations - as adopted by EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 1 *Presentation of the financial statements* - Disclosure Initiative - as adopted by EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets* - Clarification of acceptable methods of depreciation and amortisation – as adopted by EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 *Property, plant and equipment* and IAS 41 *Agriculture* - as adopted by EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 *Employee Benefits* - Defined Benefit Plans: Employee Contributions – as adopted by EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 *Separate Financial Statements* - Equity Method in Separate Financial Statements – as adopted by EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS *Annual Improvements to IFRSs (2010–2012 Cycle)* - amendments made as part of the process of making annual improvements to IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) aimed mainly at eliminating any inconsistencies and clarification of wording - as adopted by EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IFRS *Annual Improvements to IFRSs (2012–2014 Cycle)* - amendments made as part of the process of making annual improvements to IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) aimed chiefly at eliminating any inconsistencies and clarification of wording - as adopted by EU on 15 December 2015 (effective for annual periods beginning on or after 1 January 2016).

The above changes to the standards had no significant impact on the Financial Statements 2016 of the Bank, except for amendments to IAS 27 introducing the equity method on the separate financial statements.

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

The standard establishes new principles for recognising revenue whereby the entity recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or service.

The Bank estimates that the adoption of new standard will not have significant impact on the financial statements of the Bank.

IFRS 9 Financial Instruments

The European Commission by Regulation 2016/2067 of 22 November 2016 approved the International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9) in the version published by the International Accounting Standards Board on 24

July 2014, which will replace the existing standard IAS 39 *Financial Instruments: Recognition and valuation*. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018.

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

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

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

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

Classification and measurement of financial instruments

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

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

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

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

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

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

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

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

Hedge accounting

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

Impairment

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

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

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

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

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

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

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

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

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

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

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

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

The final impact of the implementation of the new standard will depend on the structure of assets as at the first application of IFRS 9, and the changes in the carrying amount of financial instruments will be recognized at once in retained earnings.

In addition, the implementation of IFRS 9 may affect the value of deferred tax assets arising from temporary differences relating to impairment losses. At present, the tax regulations have not been adjusted to the new standard for accounting for write-offs, and the probable direction of these changes is not known yet.

New standards and amendments to existing standards issued by the International Accounting Standards Board (IASB), but not yet adopted by the EU

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

- IFRS 14 *Regulatory Deferral Accounts* - effective for annual periods beginning on or after 1 January 2016; The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 16 Leases - effective for annual periods beginning on or after 1 January 2019,
- Amendments to IFRS 2 *Share-based Payment* - Classification and Measurement of Share-based Payment Transactions; effective for annual periods beginning on or after 1 January 2018,
- Amendments to IFRS 4 *Insurance Contracts* - Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*; effective for annual periods beginning on or after 1 January 2018, or when IFRS 9 is applied for the first time,
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* - Sale or contribution of assets between an investor and its associate or joint venture including later amendments; effective date has been postponed until the end of research on the equity method,
- Amendments to IFRS 15 *Revenue from contracts with customers* - effective for annual periods beginning on or after 1 January 2018,
- Amendments to IAS 7 *Statement of Cash Flows* - Disclosure initiative; effective for annual periods beginning on or after 1 January 2017**,**
- Amendments to IAS 12 *Income tax* - Recognition of Deferred Tax Assets for Unrealised Losses; effective for annual periods beginning on or after 1 January 2017,
- Amendments to IAS 40 *Investment Property* - Transfers of Investment Property; effective for annual periods beginning on or after 1 January 2018,
- Amendments to various standards *Annual Improvements to IFRSs (2014–2016 Cycle)* - amendments made as part of the process of making annual improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) aimed chiefly at eliminating any inconsistencies and clarification of wording; amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, and amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018,

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration;* effective for annual periods beginning on or after 1 January 2018.

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

IFRS 16 introduces new principles for the accounting for leases. The main change is elimination of the classification of leases as either operating lease or finance lease, and instead to provide a single lease accounting model, what will have an impact on the recognition of lease in statement of financial position and income statement.

The adoption of IFRS 16 will have impact mainly on recognition, presentation and measurement of present operating lease contracts (disclosure of assets - rights to assets under operating lease and corresponding liabilities).

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

4.7. Changes in accounting policies

Change in accounting policies on the recognition of investments in associates

In connection with the entry into force of the revised IAS 27 Separate Financial Statements, since 1 January 2016 the Bank changed the accounting policies on the recognition of investments in associates. Until 31 December 2015 investments in associates in the separate financial statements were measured at cost. Since 1 January 2016 with respect to the accounting for investments in associates the Bank applies the equity method as defined in IAS 28.

Change in accounting policy is applied retrospectively in accordance with IAS 8, therefore, the Bank adjusted the opening balance of the carrying value of investments in associates as well as equity, as if the amended rules (policy) had always been applied. In the opinion of the Bank application of the equity method for valuation of investments in associates will better reflect the value of those investments in the financial statements of the Bank – making the presentation more useful and reliable, moreover the change ensures coherent approach to the valuation of investments in associates in separate financial statements of the Bank and in the consolidated financial statements of the Getin Noble Bank S.A. Capital Group.

The comparative data for the 12-month period ended 31 December 2015 presented in these financial statements have been restated to present changes in accounting policies introduced by the Bank in 2016.

The impact of changes in accounting policies on comparative data presented in these interim condensed financial statements, are presented below:

Presentation change of comparative data in the Income Statement for the year ended 31 December 2015 and in the Statement of Financial Position as at 31 December 2015.

Item in the Income Statement For the period of 01.01.2015 - 31.12.2015	Data before restatement PLN thousand	Change in accounting policies PLN thousand	Restated data PLN thousand
Share in profits (losses) of associates under the equity method	-	11,667	11,667

Item in the Statement of financial position as at 31.12.2015	Data before restatement PLN thousand	Change in accounting policies PLN thousand	Restated data PLN thousand
Loans and advances to customers	50,519,167	(63,700)	50,455,467
Investments in subsidiaries, associates and joint ventures	1,013,776	307,970	1,321,746
Amounts due to customers	55,804,525	8,278	55,812,803
Retained earnings	-	224,325	224,325
Net profit /(loss)	1,119	11,667	12,786

Presentation change of comparative data in Statement of Financial Position as at 1 January 2015 (opening balance)

Item in the Statement of financial position as at 01.01.2015	Data before restatement PLN thousand	Change in accounting policies PLN thousand	Restated data PLN thousand
Loans and advances to customers	49,174,999	(60,644)	49,114,355
Investments in subsidiaries, associates and joint ventures	527,814	295,777	823,591
Amounts due to customers	53,081,485	10,808	53,092,293
Retained earnings	322,347	224,325	546,672

4.8. Foreign currency translation

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

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

4.9. Investments in subsidiaries, associates and joint ventures

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

4.10. Financial assets and liabilities

The Bank classifies financial assets to the following categories:

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

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

Financial assets held-to-maturity

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

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

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

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

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

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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

Financial liabilities

Financial liability is any liability that is:

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

unfavourable to the entity,

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

The recognition, derecognition and measurement of financial assets and liabilities

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

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

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

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

A financial liability (or part of a financial liability) is derecognized by the Bank from its statement of financial position only when the obligation specified in the contract is settled, cancelled, expired or when the terms of the contract were significant modified.

The value of assets and liabilities and the financial gain (loss) are determined and disclosed in the accounting books in a reliable and clear manner, presenting the Bank's financial and economic standing. Upon initial recognition, the financial asset or financial liability is measured at fair value, plus, in the case of financial assets or liabilities not classified as measured at fair value through financial gain (loss), the transactions costs that can be directly attributed to the acquisition or issue of the financial asset or financial liability.

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

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

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

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

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

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

4.11. Derivative financial instruments

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

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

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

The result of the final settlement of derivative transactions is recognized in result on financial instruments measured at fair value through profit or loss or, in the case of foreign currency financial derivatives (FX swap, FX forward and CIRS transactions), in foreign exchange result.

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

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

4.12. Hedge accounting

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

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

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

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

Fair value hedge

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

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

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

Cash flow hedge

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

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

4.13. Impairment of financial assets

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

Loans, purchased receivables, other receivables

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

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

Loans, advances and receivables, which are individually significant, are subject to individual periodical evaluation in order to determine whether impairment losses occurred (as at 31 December 2016 the Bank adopts the threshold for individually significant exposure at the outstanding balance of the principal of PLN 2 million). The impairment of an individual loan, advance or receivable is recognized and, as a consequence, an impairment allowance is made where there is objective evidence for the impairment due to one or more events which shall influence future estimated cash flows from such loans, advances or receivables. Such events include the following:

- lack or delinquent payments of loan interest or principal,
- an exposure is in the quarantine after the cessation of the condition relating to the lack or delay in repayment as described in the preceding bullet point,

- significant financial difficulties of a debtor resulting in a decrease in credit risk rating,
- unknown place of residence and undisclosed assets of counterparty,
- request for an immediate repayment of the entire loan due to termination of the loan contract (an exposure was transferred over to debt recovery),
- the Bank requested to initiate enforcement proceedings or learned of the auction date of the property securing the Bank's claims in enforcement proceedings conducted under the request of other creditor,
- filing a notion for the debtor bankruptcy or commencement of corporate recovery proceedings by the debtor,
- imposed administration has been established or debtor activities has been suspended (in case of banking entities),
- loan/advance is being questioned by the debtor in legal proceedings,
- loan restructuring (as described in the section relating restructuring of the exposure),
- fraud,
- infection of loan/advance with the impairment of the loan/advance granted to the same borrower within the specified product groups,
- the conditions for restructuring have not been met,
- problems of the retail borrower due to the job loss or income reduction, not paying debts to other institutions or significant deterioration of scoring results,
- customer's death.

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

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

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

- lack or delinquencies in repayment of loan capital or interest,
- an exposure is in the quarantine after the cessation of the condition relating to the lack or delay in repayment as described in the preceding bullet point
- significant financial difficulties of a borrower that lower the counterparty risk categories;
- unknown place of residence and undisclosed assets of counterparty;
- request for an immediate repayment of the entire loan due to termination of the loan contract (an exposure was transferred over to debt recovery);
- loan/advance is being questioned by the debtor in legal proceedings;
- loan restructuring (as described in the section relating restructuring of the exposure),
- fraud;
- the conditions for restructuring have not been met;

- infection of loan/advance with the impairment of the loan/advance granted to the same borrower within the specified product groups;
- problems of retail counterparty due to the job loss or decline in income, failure to repay debts in other financial institutions or significant deterioration of scoring results
- customer's death.

The collective impairment measurement process consists of two elements:

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

The present value of estimated future cash flows for exposures assessed on a collective basis is estimated based on:

- the expected future cash flows discounted using the effective interest rate for particular portfolio,
- historical data relating to delinquencies, length of period being impaired and repayments for particular portfolio.

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

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

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

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

To calculate allowances on off-balance sheet positions the Bank calculates the credit conversion factor (CCF) which specifies the outflow of funds which were made available to the Client by the Bank until the recognition of impairment. The Bank estimates the CCF for defined homogeneous groups of product based on historical data.

Held-to-maturity investments

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

If, in the subsequent period, the amount of the impairment loss decreases due to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the impairment loss balance. The amount of the reversal is recognized in the profit or loss.

Available-for-sale financial assets

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

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

4.14. Repo/reverse repo transactions

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

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

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

4.15. Contingent liabilities

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

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

(data in PLN thousand)

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

4.16. Property, plant and equipment

Tangible fixed assets are recognized at acquisition or manufacturing cost less depreciation and any impairment losses. The initial value of tangible fixed assets comprises its acquisition price and all the costs directly attributable to the purchase and preparation of an asset to be put into operation. The initial cost also includes the costs of replacement of parts of plant and equipment when incurred if the criteria for recognition are met. Any costs incurred after the date when the fixed asset is put into operation, such as the costs of maintenance and repairs, are recognized in profit or loss when incurred. Fixed assets, when acquired, are divided into component parts that are items of significant value and to which a separate period of economic life can be attributed. The costs of general overhauls also constitute a component part. Depreciation is provided on a straight-line basis over the estimated useful life of the respective asset.

Type of property, plant and equipment	Estimated economic useful life
Investment in third party assets	rental duration - up to 10 years
Buildings	from 40 to 66.6 years
Machinery and technical equipment	from 4 to 14 years
Computer units	from 2 to 10 years
Means of transport	from 2.5 to 5 years
Office equipment, furniture	from 2 to 10 years

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

An item of tangible fixed asset can be removed from the statement of financial position when the asset is sold or when no economic gains are expected from continuing to use such an asset. All gains or losses resulting from the removal of such an asset from the statement of financial position (calculated as the difference between possible net proceeds from the sale of the asset and the carrying amount of the asset) are recognized in the financial profit or loss for the period in which the asset was removed. Investments in progress apply to fixed assets under construction or assembly and are recognized at the acquisition or manufacturing cost. Fixed assets under construction are not depreciated until their construction is completed and the assets are put into operation. When an asset is overhauled, the overhaul cost is recognized in tangible fixed assets in the statement of financial position provided that the criteria for such recognition are met.

4.17. Investment properties

Investment property is real estate (land, buildings or parts of them or both items which the Bank treats as a source of income from rent or holds due to the related increase in value, or both, and such real estate is not used during performance of services or other administrative activities, nor intended for sale as part of the entity's ordinary business.

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

An investment property is measured initially at its cost. Transaction costs are included in the initial measurement. After initial recognition property is remeasured at fair value, and gains or losses arising from changes in the fair value of investment property are recognized in net profit or loss for the period in which it arises. Fair value of investment properties is recognized in accordance with IFRS13.

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

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

4.18. Intangible assets

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

The Bank assesses whether the useful life of an intangible asset is definite or indefinite. An intangible asset with a definite useful life is amortized throughout its useful life and subject to impairment tests every time that evidence is identified that the asset is impaired. Estimated useful life of software is 2 to 10 years. The period and method of amortization of intangible assets with a definite useful life are verified at least as of the end of each financial year. Changes in the expected useful life or in the expected method of consuming the economic benefits from an intangible asset are recognized through a change of, respectively, the period or method of depreciation, and treated as changes of estimates. The amortization charges for intangible assets with a definite useful life are recognized in profit and loss, in the respective category for the function of that intangible asset.

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

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

Core Deposit Intangible

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

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

Goodwill

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

4.19. Assets held for sale and discontinued operations

Assets held for sale include tangible fixed assets, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are recognized at the lower of its carrying amount and fair value less costs to sell. Assets classified as held for sale are not subject to depreciation. If the criteria for assets held for sale are no longer met, the Bank ceases its recognition as assets held for sale and reclassifies to the proper category of assets. In this case, the asset is measured at the lower of:

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

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

4.20. Impairment of non-financial tangible fixed assets

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

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

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

4.21. Cash and cash equivalents

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

4.22. Accrued expense and deferred income

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

4.23. Employee benefits

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

4.24. Provisions

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

a) retirement severance pay

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

b) unused holidays leave

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

c) other

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

4.25. Financial and operating lease

Financial lease agreements which transfer substantially all the risks and rewards incident to ownership of the leased asset on the Bank are recognized in the statement of financial position as at the date of commencement of the lease term at the lower of two values: the fair value of the asset and the present value of the minimum lease payments. Finance lease payments are apportioned between the operating expenses and the reduction of the outstanding liability so as to produce a constant interest rate on the remaining balance of the liability. Other operating expenses are recognized directly in the financial profit or loss. Property, plant and equipment used under finance lease are depreciated over the shorter of the following two periods: the estimated life of the asset or the lease term. Lease where the lessor retains substantially all the risks and rewards of ownership of the asset leased are classified as operating lease. Operating lease payments are recognized under expense in the financial profit or loss on a straight-line basis over the term of the relevant lease.

The Bank presents assets under operating lease in the relevant fixed asset group, according to the nature of the respective asset. Operating lease income is recognized as income on a straight-line basis over the agreement period, unless another systematic basis is more representative of the time pattern of the user's benefit.

4.26. Other receivables

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

4.27. Other liabilities

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

4.28. Equity

Equity is the capital, reserves and funds generated in accordance with the applicable laws, regulations and the articles of association. Equity consists of share capital, repurchased own shares, retained earnings and other capital.

Share capital

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

Purchased own shares

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

Retained earnings (undistributed profit or loss from prior years)

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

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

Other capital

a) Reserve capital

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

b) Revaluation reserve

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

c) Other capital reserves

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

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

4.29. Share-based payments

Equity settled transactions

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

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled until the date in which particular employees become entitled to awards (‘vesting date’). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Bank’s Management Board at that date, based on the best available estimate of the number of equity instruments, will eventually be vested.

No expense is recognized for awards that are not eventually vested, except for the awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. Furthermore, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

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

Cash-settled transactions

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

4.30. Revenues

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

Net interest income

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

The following financial assets and liabilities are measured at amortized cost by the Bank:

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

The effective interest rate is the rate that discounts the expected cash flows until maturity or the next market-based repricing date to the current net carrying amount of the financial asset or financial liability. That calculation should include all fees paid or received by the Bank under the contract for the asset or liability, excluding the potential future credit losses. The measurement method for interest coupons, fees and commission and some other external expenses associated with financial instruments (the effective interest method or the straight-line method) depends on the nature of the given instrument. Financial instruments with defined cash flow schedules are measured using the effective interest rate method. In case of financial instruments without defined cash flow schedules, it is impossible to calculate the effective interest rate and therefore the fees and commission are recognized over time using the straight-line method.

The recognition method for various types of fee/commission through profit or loss as interest or fee and commission income and, generally, whether it should be settled over time and not recognized through profit or loss as incurred, depends on the economic nature of the given fee/commission.

Deferred fees/commission income includes, for example loan approval fees, loan origination fees, fees for loan disbursement, etc. The income received from insurance is recognized as commission if the lending product is directly linked to the insurance product. Such fees are an integral part of the return generated by the given financial instrument. This category also comprises fees and charges for changing the terms and conditions of contracts, which modifies the originally calculated effective interest rate.

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

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

Net fee and commission income

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

The Bank applies the following principles for recognition in income remuneration received for offering customers insurance products.

Offering its clients insurance products, the Bank recognises income from insurance services based on professional judgement whether the sale of the insurance is limited to the provision of insurance products or the sale of insurance is linked to the sale of financial instrument. The rules of the assessment of the economic content of offered financial and insurance products sold by the Bank are presented in the note 5.1 to these financial statements.

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

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

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

The remuneration is recognized in fee and commission income.

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

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

Costs related to the sale of insurance product are classified by the Bank as directly related and other indirectly related, including fixed costs (recognized as incurred).

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

- as part of amortised cost of financial instrument, if total income related to sales of insurance product is recognized at effective interest rate method, or
- respectively in the ratio applied when the revenue is recognized as part of the calculation of amortised cost and revenue recognized at once or deferred as remuneration for the service agency if there was a split of the remuneration made for a combined product.

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

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

Result on other financial instruments

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

4.31. Other operating income and expense

Other operating income and expenses comprises income and expenses not related directly to the core activities of the Bank. These include, in particular, the result from sale and disposal of fixed assets, gains/losses from fair value adjustments of investment properties, income and expenses from the rent, income from sale of other services, penalties and fines received and paid, as well as expense relating to the debt collection activities, court fees and cost of promotion for clients. Moreover, a gain on bargain purchase on the settlement of the entity or business combination in accordance with IFRS 3 is recognized in other operating income.

4.32. Dividends

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

4.33. Corporate tax

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

4.34. Earnings per share

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

5. Significant values based on professional judgement and estimates

5.1. Professional judgement

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

Insurance Commissions

The Bank applies the following principles for recognition of the remuneration received for offering customers insurance products in commission income.

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

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

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

- financial instrument is offered by the Bank always with the insurance product, i.e. both transactions were concluded at the same time or have been included in the sequence in which each new transaction follows from the previous one,
- insurance product is offered by the Bank only together with the financial instrument, i.e. there is no possibility to buy identical insurance product in terms of the legal form, conditions and economic content without purchase of financial instrument.

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

- degree of combined product sale, i.e. the percentage share of financial instruments with insurance protection to a number of agreements on financial instruments in the Bank's portfolio, broken down by financial instruments and insurance products or insurance groups in accordance with the Bank's product offer,
- average annual real interest rate of individual financial instruments in the Bank's portfolio, by those with insurance protection and without insurance protection, broken down by financial instruments and insurance products or insurance groups in accordance with the Bank's product offer,
- possibility of joining the insurance protection without having a financial instrument,
- lack of the requirement of the Bank to conclude the insurance contract by the client for the purchased financial instrument, number of insurance contracts similar in terms of terms and conditions, concluded in other insurance company than the insurance company, whose products are offered by the Bank together with a financial instrument (the percentage share in the whole loan portfolio – broken down into financial instruments in accordance with the Bank's product offer),
- level of abandonment and the amount of commissions returned, broken down by financial instruments and insurance products or insurance groups in accordance with the Bank's product offer,
- number of insurance agreements continued after the early repayment of a loan, along with information on lending products they have been related to,

- effects of analysis of management reports on the results of individual business lines, financial instruments in accordance with the product offer of the Bank, banking services.

Under the assessment of direct link, the Bank may conclude:

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

If combined product is identified, the remuneration for the sale of insurance product is allotted and recognized as a part of amortized cost of financial instrument and as commission income related to agency services. Allotment of remuneration is made according to the ratio of the fair value of the financial instrument and the fair value of agency services in relation to the sum of these two values. Fair value measurement of the agency services and the financial instrument is based on market data.

In the case of provision of after-sales services resulting from the offered insurance product, the corresponding part of the remuneration allocated to the agency service is settled during the term of the insurance contract according to the method of completion, taking into account the principle of matching revenues and expenses.

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

The Bank estimates the costs related to the sale of insurance product in accordance with the method of accounting for income and expenses depending on the form of sales of insurance products. The Bank classifies costs associated with the sale of insurance product to directly related and other indirectly related costs, including fixed costs (recognized as incurred). Costs directly related to the sale of insurance product are accounted for in accordance with the principle of matching revenues and expenses.

Classification of lease contracts

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

Portfolio parameters in the valuation of loan exposures

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

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

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

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

5.2. Uncertainty of estimates

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

The main areas for which estimates were made by the Bank include:

Impairment of loans and advances to customers

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

Uncertainty is associated with estimates of impairment in value of portfolio (both in relation to the impaired portfolio and regular portfolio, for which an allowance for incurred but not reported losses is made - IBNR), which follows the assumptions and specific of statistical models used.

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

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

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

Fair value of investment properties

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

Impairment of other tangible fixed assets

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

Valuation of provisions for retirement severance pay

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

Impairment of goodwill

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

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

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

Value in use is the present estimated value of the future cash flows the Bank expects to derive from further use of the CGU.

Value in use includes the end (residual) value of the CGU. The residual value of the CGU is calculated by extrapolating cash flow projections beyond the forecast period, while applying a determined growth rate.

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

- historical data reflecting CGU potential with regard to cash flow generation,
- statement of financial position and income statement projections for the CGU as of the goodwill impairment test date,
- statement of financial position and income statement forecasts for the period covered by the forecast,
- assumptions included in the Bank's budget,
- analysis of the reasons for discrepancies between past cash flow forecasts and the actual flows obtained.

Future cash flows constituting the bases for value in use calculation reflect the value of potential dividends/additional capital contributions, taking into account a determined level of generated profit as well as regulatory capital necessary to maintain the assumed capital adequacy level.

The present value of future cash flows is calculated using the adequate discount rate, taking into account the risk free rate, the risk premium, the low capitalization premium and the specific risk premium.

The present value of future cash flows is compared to the carrying value (as of the date of the test) for the total of the following: goodwill and CGU net assets (CGU own funds and profits).

Deferred tax asset

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

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

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

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

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

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

5.3. Changes in accounting estimates

During the reporting period the Bank did not change the scope of estimates.

6. Correction of prior period errors

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

7. Net interest income

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Interest income related to:		
loans and advances to customers	2,287,195	2,489,435
amounts due from banks and financial institutions	3,925	11,874
available-for-sale and held-to-maturity financial assets	236,278	219,295
derivative financial instruments	226,029	271,777
obligatory reserve	27,721	29,097
Total, Interest income	**2,781,148**	**3,021,478**
of which:		
Interest income from impaired financial assets	200,658	226,215
Interest income calculated using the effective interest rate in relation to financial assets not measured at fair value through profit or loss	2,555,119	2,749,701
Interest expense related to:		
amounts due to customers	1,379,102	1,636,819
amounts due to banks and financial institutions	40,047	50,405
derivative financial instruments	(54,082)	27,136
debt securities issued	136,434	150,359
Total, Interest expense	**1,501,501**	**1,864,719**
of which:		
Interest expense calculated using the effective interest rate in relation to financial liabilities not measured at fair value through profit or loss	1,555,583	1,837,583
Net interest income	**1,279,647**	**1,156,759**

8. Net fee and commission income

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Fee and commission income related to:		
loans and advances	27,913	51,159
bank accounts service	37,063	46,731
payment cards and credit cards	45,805	42,084
investment products	58,330	121,559
insurance products	46,960	174,569
other fee and commission income	1,390	2,304
Total fee and commission income	**217,461**	**438,406**
Fee and commission expense related to:		
loans and advances	8,877	14,656
payment cards and credit cards	46,013	42,963
investment products and banking products	84,536	94,813
insurance products	9,239	11,799
other fee and commission expense	9,819	8,098
Total fee and commission expense	**158,484**	**172,329**
Net fee and commission income	**58,977**	**266,077**

9. Dividend income

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Dividends from:		
subsidiaries and joint ventures	73,551	17,639
financial instruments classified as available-for-sale	5,443	4,580
financial instruments classified as held for trading	-	12
financial instruments classified as financial assets measured at fair value through profit or loss	5,951	9,497
Total dividend income	**84,945**	**31,728**

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

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Result on financial instruments, of which:	(7,612)	(8,689)
equity securities	(4,935)	(3,554)
derivatives	(2,677)	(5,135)
Exchange differences on translation of foreign currency loans	16,287	17,254
Other exchange differences	14,286	12,343
Total result on financial instruments measured at fair value through profit or loss and net foreign exchange gains	**22,961**	**20,908**

11. Result on other financial instruments

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Result on financial instruments measured at fair value through other comprehensive income, of which:	84,736	28,220
debt securities	17,556	25,520
equity securities	67,180	2,700
Total result on other financial instruments	**84,736**	**28,220**

The result on other financial instruments 2016 includes the result on sale of shares of Biuro Informacji Kredytowej S.A. and the revenue on settlement of the VISA Europe Ltd. transaction.

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

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

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

	PLN thousand
Revenue from sales of shares	180,043
Book value of shares sold	(14,235)
Transaction costs	(202)
Profit before tax	**165,606**
Income tax	(31,465)
Net profit	**134,141**

On 29 April 2016 the Bank completed the sale transaction of 3 packages of 9993 shares of Noble Funds TFI S.A. each constituting 29.97% of its share capital.

Presented below is the settlement of a Bank's result on sale of the shares of Noble Funds TFI S.A.:

	PLN thousand
Revenue from sales of shares	62,931
Book value of shares sold	(18,902)
Transaction costs	(31)
Profit before tax	**43,998**
Income tax	(8,360)
Net profit	**35,638**

In 2015 Getin Noble Bank S.A. sold 3,712 shares of its subsidiary Getin Leasing S.A., representing 49.28% of the share capital and 49.28% of the votes at the General Meeting of Shareholders to Getin Holding S.A. and lost control in the company. In addition, the Bank and Getin Holding S.A. signed an agreement for the exercise of joint control over Getin Leasing S.A. establishing the principles of cooperation in the management of the company.

13. Net other operating income and expense

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Other operating income:		
rental income	7,571	8,267
revenues from sales of products and services, goods and materials	2,499	3,142
recovered legal and debt collection costs	8,204	6,351
reversal of provisions and impairment allowances on other assets	2,516	1,740
revenues from non-collectible receivables recovered	728	2,546
gain on sale of non-financial fixed assets	3,230	1,396
other income	11,996	7,518
Total other operating income	**36,744**	**30,960**
Other operating expense:		
rental costs	2,849	3,525
cost of products, goods and materials sold	1,309	2,147
debt collection and monitoring of receivables, including legal costs	37,095	40,070
recognition of provisions and impairment allowances on other assets	7,566	5,534
costs related to investment products	1,910	2,994
costs of promotion and rewards for customers	16,786	27,745
net loss from fair value adjustments of investment properties	19,922	1,057
other expense	13,713	13,791
Total other operating expense	**101,150**	**96,863**
Net other operating income and expense	**(64,406)**	**(65,903)**

14. Administrative expenses

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Employee benefits, of which:	350,621	352,397
salaries	296,311	296,676
employment costs and other employee benefits	54,310	55,721
Use of materials and energy	19,402	26,259
External services, of which:	236,048	290,924
marketing and advertising	30,325	65,511
IT services	38,226	30,917
lease and rental	105,529	115,096
security and cash processing services	6,016	6,613
telecommunication and postal services	29,515	35,140
legal and advisory services	6,127	10,064
other external services	20,310	27,583
Taxes and charges	8,670	141,624[1)]
Payments to the Bank Guarantee Fund and the Polish Financial Supervision Authority	113,301[3)]	241,180[2)]
Amortisation and depreciation	75,004	66,581
Other expenses	4,854	9,962
Total administrative expenses	**807,900**	**1,128,927**

[1)] of which PLN 134,056 thousand is an accrual for contribution to the Borrowers Support Fund,
[2)] of which PLN 116,915 thousand is payment to the Bank Guarantee Fund due to the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (SK Bank),
[3)] of which PLN 7,686 thousand is payment to the Bank Guarantee Fund due to the bankruptcy of Spółdzielczy Bank in Nadarzyn.

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

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Loans and advances to customers, of which:	633,815	419,190
corporate	87,532	25,718
car	31,117	(15,950)
mortgage	254,103	207,446
retail	261,063	201,976
Amounts due from banks	(476)	220
investments in subsidiaries and associates	55,200	-
Available-for-sale financial assets	(1,175)	(1,207)
Off-balance sheet provisions	594	(1,679)
Total net impairment allowances on financial assets and off-balance sheet provisions	**687,958**	**416,524**

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Impairment allowances/provisions at the beginning of the period	**2,384,785**	**3,590,660**
Net change in impairment allowances/provisions recognized in the income statement	687,958	416,524
Utilisation - write-offs	(78,465)	(14,050)
Utilisation - sale of the portfolio	(134,717)	(1,484,283)
Net other increases/ decreases	(126,903)	(124,066)
Impairment allowances/provisions at the end of the period	**2,732,658**	**2,384,785**

16. Income tax

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

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

The main items additionally affecting the tax burden in the income statement are dividends received from subordinated entities, which are excluded from the tax base, the prudential fee to the Bank Guarantee Fund and the tax on certain financial institutions.

In addition, in 2016 the Bank utilised for corporation tax purposes tax losses from previous years in the amount of PLN 104,969 thousand.

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Income statement		
Current income tax	5,890	3,351
Current tax charge	5,890	-
Adjustments related to current tax from previous years	-	3,351
Deferred income tax	24,052	19,055
Related to origination and reversal of temporary differences	4,108	124,012
Adjustments related to deferred tax from previous years	-	1,799
Tax loss from previous years	19,944	(106,756)
Tax charge in the income statement	**29,942**	**22,406**
Statement of comprehensive income		
Current income tax	-	-
Deferred income tax	(15,073)	10,450
Related to origination and reversal of temporary differences, of which:	(15,073)	10,450
related to available-for-sale financial assets	(17,904)	(424)
related to cash flow hedges	2,801	10,866
related to actuarial gains/ losses	30	8
Tax charge/(benefit) in the statement of comprehensive income	**(15,073)**	**10,450**
Total main components of tax charge/ (benefit)	**14,869**	**32,856,**

Tax charge in the income statement	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Profit before tax	138,945	35,192
Tax charge at 19% tax rate	26,400	6,686
Non-taxable income	(16,221)	(8,385)
Non-tax-deductible costs	19,763	24,105
Tax charge in the income statement	**29,942**	**22,406**

	As at 01.01.2016	Changes in the period		As at 31.12.2016
		Recognized in the income statement	Recognized in other comprehensive income	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Deferred income relating to securities and derivatives	41,841	(236)	-	41,605
Deferred income relating to loans and deposits	70,560	(18,259)	-	52,301
Depreciation (fixed assets financed by investment tax relief))	554	(33)	-	521
Fees and commissions paid in advance	81,197	4,373	-	85,570
Surplus of tax amortisation	18,784	(784)	-	18,000
Valuation of available-for-sale financial assets	4,859	-	(4,147)	712
Provision for amortisation of intangible assets acquired within an organised part of a business	5,860	(393)	-	5,467
Other	418	862	-	1,280
Deferred tax liability	**224,073**	**(14,470)**	**(4,147)**	**205,456**
Interest on deposits, issue of own securities, derivatives and interest on bonds	101,234	(11,212)	-	90,022
Impairment allowances on loans	250,437	15,134	-	265,571
Tax loss	120,029	(19,944)	-	100,085
Revenue taxed in advance	11,601	(3,592)	-	8,009
Provisions for expected liabilities and costs	9,843	3,325	-	13,168
Valuation of available-for-sale financial assets	8,339	-	13,757	22,096
Valuation of cash flow hedge	24,994	-	(2,801)	22,193
Valuation of cash flow hedge	25,471	(25,471)	-	-
Other	4,014	3,238	(30)	7,222
Deferred tax asset	**555,962**	**(38,522)**	**10,926**	**528,366**
Net deferred tax assets	**331,889**	**24,052**	**15,073**	**322,910**

	As at 01.01.2015	Changes in the period		As at 31.12.2015
		Recognized in the income statement	Recognized in other comprehensive income	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Deferred income relating to securities and derivatives	40,121	1,720	-	41,841
Deferred income relating to loans and deposits	68,136	2,424	-	70,560
Depreciation (fixed assets financed by investment tax relief)	586	(32)	-	554
Fees and commissions paid in advance	118,662	(37,465)	-	81,197
Surplus of tax amortisation	12,356	6,428	-	18,784
Valuation of available-for-sale financial assets	865	-	3,994	4,859
Provision for amortisation of intangible assets acquired within an organised part of a business	6,229	(369)	-	5,860
Other	441	(23)	-	418
Deferred tax liability	**247,396**	**,(27,317)**	**3,994**	**224,073**
Interest on deposits, issue of own securities, derivatives and interest on bonds	139,334	(38,100)	-	101,234
Impairment allowances on loans	365,866	(115,429)	-	250,437
Tax loss from previous years	15,072	104,957	-	120,029
Revenue taxed in advance	32,605	(21,004)	-	11,601
Provisions for expected liabilities and costs	11,028	(1,185)	-	9,843
Valuation of available-for-sale financial assets	3,921	-	4,418	8,339
Valuation of cash flow hedge	35,860	-	(10,866)	24,994
Accrued contribution to the Borrowers Support Fund	-	25,471	-	25,471
Other	5,104	(1,082)	(8)	4,014
Deferred tax asset	**608,790**	**(46,372)**	**(6,456)**	**555,962**
Net deferred tax assets	**361,394**	**(19,055)**	**10,450**	**331,889**

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

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

17. Cash, balances with the Central Bank

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Cash	179,463	170,238
Current account in the Central Bank	2,972,719	2,554,211
Other	11	11
Total cash, balances with the Central Bank	**3,152,193**	**2,724,460**

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

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

18. Amounts due from banks and financial institutions

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Current accounts	986,414	1,964,147
Deposits and other receivables	10,761	45,420
Total amounts due from banks and financial institutions	**997,175**	**2,009,567**
Impairment allowances	(625)	(1,101)
Total amounts due from banks and financial institutions, net	**996,550**	**2,008,466**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Current accounts and overnight deposits	986,414	1,964,146
Amounts due with term of maturity:	10,761	45,421
up to 1 month	10,623	45,225
from 1 to 3 months	11	16
from 3 months to 1 year	51	65
from 1 year do 5 years	76	115
Total amounts due from banks and financial institutions	**997,175**	**2,009,567**
Impairment allowances	(625)	(1,101)
Total amounts due from banks and financial institutions, net	**996,550**	**2,008,466**

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

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Receivables with variable interest rate	985,875	1,963,130
Receivables with fixed interest rate	10,675	45,336
Total amounts due from banks and financial institutions, net	**996,550**	**2,008,466**

19. Financial assets held for trading

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Rights to shares in other entities, of which:	2,411	-
unquoted	2,411	-
Total financial assets held for trading	**2,411**	**-**

As part of public offering of ordinary bearer series E shares of Open Finance S.A. the Bank acquired 10,777,135 rights to the new issue shares, of which 2,078,500 were acquired with the intent of selling them within a short period of time and classified as assets held for trading.

20. Financial assets measured at fair value through profit or loss

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

Financial assets measured at fair value through profit or loss comprise only financial assets classified to this category upon initial recognition.

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

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

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

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

21. Derivative financial instruments

The nominal value of underlying instruments and fair value of derivative financial instruments according to original maturity is presented in the table below:

31.12.2016	up to 1 month PLN thousand	from 1 month to 3 months PLN thousand	from 3 months to 1 year PLN thousand	from1 year to 5 years PLN thousand	over 5 years PLN thousand	Total PLN thousand	Fair value assets PLN thousand	Fair value liabilities PLN thousand
Currency transactions								
Currency swap	**6,519,917**	**1,162,068**	**-**	**-**	**-**	**7,681,985**	**11,473**	**12,547**
Purchase	3,253,508	586,058	-	-	-	3,839,566		
Sale	3,266,409	576,010	-	-	-	3,842,419		
CIRS	**-**	**1,238,380**	**7,115,381**	**26,687,979**	**-**	**35,041,740**	**7,199**	**1,628,030**
Purchase	-	581,796	3,429,486	12,716,190	-	16,727,472		
Sale	-	656,584	3,685,895	13,971,789	-	18,314,268		
Options	**-**	**5,082**	**22,130**	**-**	**-**	**27,212**	**6,409**	**6,409**
Purchase	-	2,541	11,065	-	-	13,606		
Sale	-	2,541	11,065	-	-	13,606		
Forward	**36,852**	**65,728**	**7,000**	**-**	**-**	**109,580**	**883**	**2,000**
Purchase	18,496	32,951	3,496	-	-	54,943		
Sale	18,356	32,777	3,504	-	-	54,637		
Interest rate transactions								
Interest rate swap (IRS)	**-**	**-**	**-**	**462,478**	**400,254**	**862,732**	**16,556**	**2,459**
Purchase	-	-	-	231,239	200,127	431,366		
Sale	-	-	-	231,239	200,127	431,366		
Options	**8,234**	**-**	**16,470**	**1,619,795**	**-**	**1,644,499**	**8,673**	**9,217**
Purchase	4,117	-	8,235	809,794	-	822,146		
Sale	4,117	-	8,235	810,001	-	822,353		
Other transactions								
Other - share option	**-**	**-**	**-**	**-**	**165,658**	**165,658**	**39,393**	**-**
Purchase	-	-	-	-	165,658	165,658		
Total derivatives	**6,565,003**	**2,471,258**	**7,160,981**	**28,770,252**	**565,912**	**45,533,406**	**90,586**	**1,660,662**

31.12.2015	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from1 year to 5 years	over 5 years	Total	Fair value	
							assets	liabilities
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Currency transactions								
Currency swap	**11,119,623**	**1,581,690**	**-**	**-**	**-**	**12,701,313**	**8,678**	**47,575**
Purchase	5,543,050	785,770	-	-	-	6,328,820		
Sale	5,576,573	795,920	-	-	-	6,372,493		
CIRS	**1,906,012**	**1,443,729**	**7,574,443**	**15,711,470**	**781,670**	**27,417,324**	**75,581**	**1,454,238**
Purchase	959,870	664,835	3,686,886	7,343,837	390,835	13,046,263		
Sale	946,142	778,894	3,887,557	8,367,633	390,835	14,371,061		
Forward	**100,949**	**25,386**	**52,832**	**-**	**-**	**179,167**	**3,104**	**1,420**
Purchase	50,581	12,764	27,677	-	-	91,022		
Sale	50,368	12,622	25,155	-	-	88,145		
Interest rate transactions								
Interest rate swap (IRS)	**-**	**-**	**67,130**	**140,924**	**422,734**	**630,788**	**19,385**	**3,171**
Purchase	-	-	33,565	70,462	211,367	315,394		
Sale	-	-	33,565	70,462	211,367	315,394		
Options	**-**	**-**	**-**	**1,628,357**	**-**	**1,628,357**	**12,490**	**12,875**
Purchase	-	-	-	814,070	-	814,070		
Sale	-	-	-	814,287	-	814,287		
Other transactions								
Other - share option	**-**	**-**	**-**	**-**	**165,658**	**165,658**	**39,836**	**-**
Purchase	-	-	-	-	165,658	165,658		
Total derivatives	**13,126,584**	**3,050,805**	**7,694,405**	**17,480,751**	**1,370,062**	**42,722,607**	**159,074**	**1,519,279**

22. Loans and advances to customers

	31.12.2016 PLN thousand	31.12.2015 (restated) PLN thousand
Loans and advances	44,265,909	47,137,599
Purchased receivables	5,753,081	5,600,442
Payment cards and credit cards receivables	86,325	86,849
Total loans and advances to customers	**50,105,315**	**52,824,890**
Impairment allowances	(2,663,153)	(2,369,423)
Total loans and advances to customers, net	**47,442,162**	**50,455,467**

31.12.2016	Gross value of unimpaired loans	Gross value of impaired loans	Allowances for unimpaired loans	Allowances for impaired loans	Total net
corporate loans	10,090,873	824,655	(11,163)	(297,674)	10,606,691
car loans	1,807,894	335,144	(7,075)	(180,227)	1,955,736
mortgage loans	27,300,044	4,803,292	(43,903)	(1,440,840)	30,618,593
retail loans	3,630,551	1,312,862	(39,741)	(642,530)	4,261,142
Total	**42,829,362**	**7,275,953**	**(101,882)**	**(2,561,271)**	**47,442,162**

31.12.2015 (restated)	Gross value of unimpaired loans	Gross value of impaired loans	Allowances for unimpaired loans	Allowances for impaired loans	Total net
corporate loans	10,932,080	801,094	(15,533)	(230,512)	11,487,129
car loans	2,366,684	357,589	(9,268)	(176,002)	2,539,003
mortgage loans	28,968,383	4,473,842	(46,253)	(1,305,726)	32,090,246
retail loans	3,747,444	1,177,774	(41,347)	(544,782)	4,339,089
Total	**46,014,591**	**6,810,299**	**(112,401)**	**(2,257,022)**	**50,455,467**

	31.12.2016 PLN thousand	31.12.2015 (restated) PLN thousand
Loans and advances to customers with due date:		
up to 1 month	5,153,234	4,274,296
from 1 month to 3 months	971,448	1,035,572
from 3 months to 1 year	3,971,115	4,892,746
from 1 year to 5 years	13,043,743	13,872,001
over 5 years	26,965,775	28,750,275
Total loans and advances to customers	**50,105,315**	**52,824,890**
Impairment allowances	(2,663,153)	(2,369,423)
Total loans and advances to customers, net	**47,442,162**	**50,455,467**

	31.12.2016 PLN thousand	31.12.2015 (restated) PLN thousand
Loans and advances to customers, of which:		
local government units	1,123,034	1,112,980
financial institutions other than banks	1,152,280	1,785,928
non-financial institutions other than natural persons	9,962,329	11,006,669
natural persons	35,204,519	36,549,890
Total loans and advances to customers, net	**47,442,162**	**50,455,467**

	31.12.2016	31.12.2015
The value of loans and advances with fixed interest rate (PLN million)	936	695
% of the total loans and advances portfolio	1.97%	1.38%

In 2016 Getin Noble Bank S.A. sold receivables, which consisted of both impaired loans and receivables written off from the Bank's accounts, as well as the portfolio of loans without impairment. The nominal value of portfolio covered by the assignment agreements totalled to PLN 987 million (the carrying amount of the portfolio amounted to PLN 838 million, of which PLN 755 million was the portfolio of unimpaired lease receivables).

In 2015 the Bank sold portfolio of impaired loans and receivables written-off from the Bank's accounts with a total nominal value of PLN 2.3 billion.

Loans in Swiss Franc

Presented below is the information about the portfolio and the quality of mortgage loans denominated in or indexed to Swiss Franc:

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

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

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

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

The minister competent for financial institutions is recommended to:

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

The Polish Financial Supervision Authority was recommended to:

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

The Bank Guarantee Fund was recommended to:

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

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

23. Financial assets

Available-for-sale financial assets

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Available-for-sale debt securities , gross	**11,582,013**	**12,172,442**
issued by central banks	824,780	3,798,693
issued by banks and other financial entities	162,841	87,022
issued by non- financial entities	6,107	39,379
issued by the local government units	-	13,781
government bonds	10,588,285	8,233,567
Impairment allowances	**(5,051)**	**(5,051)**
issued by non- financial entities	(5,051)	(5,051)
Total available-for-sale debt securities, net	**11,576,962**	**12,167,391**
Available-for-sale equity securities gross	**131,318**	**75,517**
issued by banks and other financial entities	76,447	66,452
issued by non- financial entities	54,871	9,065
Impairment allowances	**(5,153)**	**(6,328)**
issued by non- financial entities	(5,153)	(6,328)
Total available-for-sale equity securities, net	**126,165**	**69,189**
Total available-for-sale financial assets, net	**11,703,127**	**12,236,580**

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

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

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

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

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Available-for-sale financial assets at the beginning of the period	**12,236,580**	**11,232,147**
Increases	164,772,493	248,340,743
Decreases (sale and redemption)	(165,194,140)	(247,343,845)
Reversal of impairment allowances	1,175	1,207
Fair value changes	(112,981)	6,328
Available-for-sale financial assets at the end of the period	**11,703,127**	**12,236,580**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Available-for-sale financial assets by maturity:		
up to 1 month	1,750,900	3,833,755
from 1 month to 3 months	1,441	29,795
from 3 months to 1 year	1,215,015	1,590,105
from 1 year to 5 years	7,901,033	4,089,929
over 5 years	713,624	2,628,858
Equity securities of uncertain maturity	131,318	75,517
Total available-for-sale financial assets gross	**11,713,331**	**12,247,959**
Impairment allowances	(10,204)	(11,379)
Total available-for-sale financial assets net	**11,703,127**	**12,236,580**

Held-to-maturity financial assets

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

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

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Held-to-maturity financial assets at the beginning of the period	**154,322**	**95,857**
Increases	49,003	67,403
Decreases	(1,400)	(10,500)
Accrued interest and adjustment for amortized cost	716	1,562
Held-to-maturity financial assets at the end of the period	**202,641**	**154,322**

24. Assets pledged as security

	Carrying amount of assets pledged as security	
	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Available-for-sale financial assets:		
Treasury bonds as collateral for Guaranteed Deposit Protection Funds of the Bank Guarantee Fund	317,975	213,319
Treasury bonds as collateral for loans received	2,418,574	3,197,430
Treasury bonds as collateral for loans received by a subsidiary	406,500	413,665
Treasury bonds as collateral in a repo agreement	259,953	638,420
Treasury bonds as collateral for repayment of receivables	92,601	57,848
Total assets pledged as security	**3,495,603**	**4,520,682**

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

25. Investments in subsidiaries, associates and joint ventures

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

31.12.2016	The percentage share / Voting rights held by the Bank	Gross value PLN thousand	Impairment allowances PLN thousand	Carrying value PLN thousand
Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A.	70.03%	44,174	-	44,174
Noble Concierge sp. z o. o.	100%	469	-	469
Noble Securities S.A.	100%	41,742	-	41,742
Sax Development sp. z o. o.	100%	105,005	-	105,005
BPI Bank Polskich Inwestycji S.A.	100%	57,084	-	57,084
Property Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	100%	374,997	(19,700)	355,297
Debtor Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	100%	425,652	(21,600)	404,052
ProEkspert sp. z o. o.	100%	13	-	13
ProEkspert sp. z o. o. sp.k.	100%	13	-	13
Total investments in subsidiaries		**1,049,149**	**(41,300)**	**1,007,849**
Open Finance S.A.	42.15%	337,012	(13,900)	323,112
Total investments in associates		**337,012**	**(13,900)**	**323,112**
Total investments in subordinated entities		**1,386,161**	**(55,200)**	**1,330,961**

31.12.2015 (restated)	The percentage share / Voting rights held by the Bank	Gross value PLN thousand	Impairment allowances PLN thousand	Carrying value PLN thousand
Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A.	100%	63,076	-	63,076
Noble Concierge sp. z o. o.	100%	469	-	469
Noble Securities S.A.	100%	41,742	-	41,742
Sax Development sp. z o. o.	100%	105,005	-	105,005
BPI Bank Polskich Inwestycji S.A.	100%	57,084	-	57,084
Property Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	100%	329,998	-	329,998
Debtor Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	100%	363,000	-	363,000
ProEkspert sp. z o. o. (formerly LAB sp. z o. o.)	100%	13	-	13
ProEkspert sp. z o. o. sp.k. (former LAB sp. z o. o. sp. k.)	100%	13	-	13
Total investments in subsidiaries		**960,400**	-	**960,400**
Getin Leasing S.A	50.72%	14,235	-	14,235
Total investments in joint ventures		**14,235**	**-**	**14,235**
Open Finance S.A.	42.15%	347,111	-	347,111
Total investments in associates		**347,111**	**-**	**347,111**
Total investments in subordinated entities		**1,321,746**	**-**	**1,321,746**

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.

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

In 2016 Getin Noble Bank S.A. sold 50.72% of owned shares in Getin Leasing S.A and 3 packages of shares of Noble Funds TFI S.A. each of 9993, constituting 29.97% of share capital of the company.
Settlement of a Bank's result on these transactions is presented in Note II.12

In 2016 the Bank acquired 62,661 units of Series B investment certificates of Debtor NS FIZ in total amount of PLN 62,652 thousand and 49,127 units of Series F investment certificates of Property FIZAN in total amount of PLN 44,999 thousand. The Bank is the only investor in both Funds.

Test for impairment of an investment in subsidiaries

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

Impairment of Property FIZAN

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

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

8.45%.

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

The recoverable amount of an investment in a subsidiary calculated in the manner described above was compared with its carrying value. As a result of test for impairment carried out in 2016 impairment on the investment in a subsidiary Property was recognized and impairment allowance in the amount of PLN 19.7 million was made.

Impairment of Debtor NS FIZ

The recoverable amount of the investment in Debtor NS FIZ was set as the fair value less the cost of disposal of investment certificates of the Fund. Taking into account the specificity of exposures of the Debtor NS FIZ portfolio (mortgages granted on the basis of GNB SA procedures and processes), the Bank applied the model of write-offs used by the Bank in accordance with IAS 39. The approach is in line with the risk profile of the exposures and as of the balance sheet date reflects the fair value of investment certificates of the Fund at best. The excess of carrying value over the recoverable amount was identified and impairment allowance in the amount of PLN 21.6 million was recognized.

Investments in associates

Information on associates of the Bank is the following:

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

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

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

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

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

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

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

* Attributable to equity holders of the parent

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

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

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

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

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

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

26. Intangible assets

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Patents and licenses	146,245	124,769
Goodwill	51,307	51,307
Other intangible assets	34,551	41,337
Capital expenditure on intangible assets	50,586	46,642
Total intangible assets	**282,689**	**264,055**

As at 31 December 2016 Getin Noble Bank S.A. recognized as intangible assets relationships with deposit customers (‘Core Deposit Intangible’) in the amount of PLN 34,551 thousand, which were identified and measured as a result of the settlement of acquisition of the organised part of business of DnB Nord Polska S.A. and DZ Bank Polska S.A. at the initial value of PLN 58,807 thousand. Relationships with customers reflect the benefits of obtaining a cheaper source of funding and are measured at the present value of future benefits, constituting the difference between the cost of the funding from the external sources and the cost of interest rates on current accounts taking into account anticipated customers behaviour.

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

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

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

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

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

- historical data reflecting the CGU's potential for generating cash flows,
- forecasted balance sheet and income statement of the CGU as of the date of testing (as of 31 December 2016 the estimated CGU net asset value was PLN 3.189 million, while the carrying amount of the CGU amounted to PLN 342 million),
- forecasted statement of financial position and income statement for the period covered by forecast,
- assumptions included in the Bank's budget,
- analysis of variances between the forecasted and actual cash flows.

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

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

As of 31 December 2016 the carrying amount of goodwill of Bank Przemysłowy S.A. amounted to PLN 51,307 thousand. As of 31 December 2016 no impairment was identified with respect to goodwill.

2016	Patents and licenses PLN thousand	Goodwill PLN thousand	Other intangible assets PLN thousand	Capital expenditures on intangible assets PLN thousand	Total PLN thousand
Gross value as at 01.01.2016	**260,701**	**51,307**	**58,951**	**46,642**	**417,601**
Increases, of which:	46,512	-	-	31,090	**77,602**
purchase	20,476	-	-	31,090	**51,566**
transfer from investment	26,036	-	-	-	**26,036**
Decreases, of which:	-	-	-	(27,146)	**(27,146)**
transfer from investment	-	-	-	(26,036)	**(26,036)**
other decreases	-	-	-	(1,110)	**(1,110)**
Gross value as at 31.12.2016	**307,213**	**51,307**	**58,951**	**50,586**	**468,057**
Amortisation as at 01.01.2016	**119,251**	**-**	**17,614**	**-**	**136,865**
Increases, of which:	25,036	-	6,786	-	31,822
amortisation charge for the period	25,036	-	6,786	-	31,822
Amortisation as at 31.12.2016	**144,287**	**-**	**24,400**	**-**	**168,687**
Impairment allowances as at 01.01.2016	**16,681**	**-**	**-**	**-**	**16,681**
Impairment allowances as at 31.12.2016	**16,681**	**-**	**-**	**-**	**16,681**
Net value as at 01.01.2016	**124,769**	**51,307**	**41,337**	**46,642**	**264,055**
Net value as at 31.12.2016	**146,245**	**51,307**	**34,551**	**50,586**	**282,689**

2015	Patents and licenses PLN thousand	Goodwill PLN thousand	Other intangible assets PLN thousand	Capital expenditures on intangible assets PLN thousand	Total PLN thousand
Gross value as at 01.01.2015	**206,666**	**51,307**	**63,366**	**39,234**	**360,573**
Increases, of which:	63,299	-	-	25,631	**88,930**
purchase	44,284	-	-	25,631	**69,915**
transfer from investment	17,942	-	-	-	**17,942**
Other increases	1,073	-	-	-	**1,073**
Decreases, of which:	(9,264)	-	(4,415)	(18,223)	**(31,902)**
liquidation and sale	(9,264)	-	(4,415)	-	**(13,679)**
transfer from investment	-	-	-	(17,942)	**(17,942)**
other decreases	-	-	-	(281)	**(281)**
Gross value as at 31.12.2015	**260,701**	**51,307**	**58,951**	**46,642**	**417,601**
Amortisation as at 01.01.2015	**108,635**	-	**13,551**	-	**122,186**
Increases, of which:	18,991	-	6,786	-	25,777
amortisation charge for the period	18,991	-	6,786	-	25,777
Decreases, of which:	(8,375)	-	(2,723)	-	(11,098)
liquidation and sale	(8,375)	-	(2,723)	-	(11,098)
Amortisation as at 31.12.2015	**119,251**	**-**	**17,614**	**-**	**136,865**
Impairment allowances as at 01.01.2015	**16,712**	**-**	**1,692**	**-**	**18,404**
Increases	858	-	-	-	858
Decreases	(889)	-	(1,692)	-	(2,581)
Impairment allowances as at 31.12.2015	**16,681**	**-**	**-**	**-**	**16,681**
Net value as at 01.01.2015	**81,319**	**51,307**	**48,123**	**39,234**	**219,983**
Net value as at 31.12.2015	**124,769**	**51,307**	**41,337**	**46,642**	**264,055**

27. Property, plant and equipment

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Land and buildings	68,961	75,592
Plant and machinery	99,801	107,312
Vehicles	328	1,217
Other tangible fixed assets, including equipment	10,192	16,882
Assets under construction	928	1,368
Total property, plant and equipment	**180,210**	**202,371**

2016	Land and buildings PLN thousand	Plant and machinery PLN thousand	Vehicles PLN thousand	Other tangible fixed assets PLN thousand	Assets under construction PLN thousand	Total PLN thousand
Gross value as at 01.01.2016	**216,210**	**242,871**	**5,823**	**38,304**	**2,399**	**505,607**
Increases, of which:	5,083	19,515	259	131	4	24,992
purchase	406	19,072	259	131	4	19,872
transfer from investment properties	4,677	-	-	-	-	4,677
transfer from assets under construction	-	443	-	-	-	443
Decreases, of which:	(14,967)	(4,483)	(4,530)	(260)	(1,475)	(25,715)
liquidation and sale	(13,970)	(2,701)	(2,784)	(251)	(1,032)	(20,738)
transfer to investment properties	(538)	-	-	-	-	(538)
transfer to non-current assets held for sale	(459)	-	-	-	-	(459)
transfer from assets under construction	-	-	-	-	(443)	(443)
other decreases	-	(1,782)	(1,746)	(9)	-	(3,537)
Gross value as at 31.12.2016	**206,326**	**257,903**	**1,552**	**38,175**	**928**	**504,884**
Depreciation as at 01.01.2016	**130,215**	**133,328**	**4,606**	**21,260**	**-**	**289,409**
Increases, of which:	10,475	25,705	213	6,789	-	43,182
depreciation charge for the period	10,475	25,705	213	6,789	-	43,182
Decreases, of which	(13,728)	(3,044)	(3,595)	(228)	-	(20,595)
liquidation and sale	(13,723)	(2,409)	(1,911)	(219)	-	(18,262)
transfer to non-current assets held for sale	(5)	-	-	-	-	(5)
other decreases	-	(635)	(1,684)	(9)	-	(2,328)
Depreciation as at 31.12.2016	**126,962**	**155,989**	**1,224**	**27,821**	**-**	**311,996**
Impairment allowances as at 01.01.2016	**10,403**	**2,231**	**-**	**162**	**1,031**	**13,827**
Decreases	-	(118)	-	-	(1,031)	(1,149)
Impairment allowances as at 31.12.2016	**10,403**	**2,113**	**-**	**162**	**-**	**12,678**
Net value as at 01.01.2016	**75,592**	**107,312**	**1,217**	**16,882**	**1,368**	**202,371**
Net value as at 31.12.2016	**68,961**	**99,801**	**328**	**10,192**	**928**	**180,210**

2015	Land and buildings PLN thousand	Plant and machinery PLN thousand	Vehicles PLN thousand	Other tangible fixed assets PLN thousand	Assets under construction PLN thousand	Total PLN thousand
Gross value as at 01.01.2015	**213,556**	**226,603**	**12,506**	**43,455**	**11,079**	**507,199**
Increases, of which:	7,797	58,904	1,097	3,896	712	72,406
purchase	5,392	51,389	1,097	3,597	712	62,187
transfer from investment properties	2,044	-	-	-	-	2,044
transfer from assets under construction	361	7,515	-	299	-	8,175
Decreases, of which:	(5,143)	(42,636)	(7,780)	(9,047)	(9,392)	(73,998)
liquidation and sale	(3,660)	(42,636)	(7,780)	(9,047)	-	(63,123)
transfer to investment properties	(500)	-	-	-	-	(500)
transfer to non-current assets held for sale	(983)	-	-	-	-	(983)
transfer from assets under construction	-	-	-	-	(8,175)	(8,175)
other decreases	-	-	-	-	(1,217)	(1,217)
Gross value as at 31.12.2015	**216,210**	**242,871**	**5,823**	**38,304**	**2,399**	**505,607**
Depreciation as at 01.01.2015	**121,878**	**145,659**	**10,974**	**23,685**	**-**	**302,196**
Increases, of which:	11,866	21,389	1,217	6,331	-	40,803
depreciation charge for the period	11,866	21,389	1,217	6,331	-	40,803
Decreases, of which:	(3,529)	(33,720)	(7,585)	(8,756)	-	(53,590)
liquidation and sale	(3,507)	(33,720)	(7,585)	(8,756)	-	(53,568)
transfer to non-current assets held for sale	(22)	-	-	-	-	(22)
Depreciation as at 31.12.2015	**130,215**	**133,328**	**4,606**	**21,260**	**-**	**289,409**
Impairment allowances as at 01.01.2015	**10,545**	**2,548**	**-**	**260**	**1,031**	**14,384**
Increases	-	-	-	-	-	-
Decreases	(142)	(317)	-	(98)	-	(557)
Impairment allowances as at 31.12.2015	**10,403**	**2,231**	**-**	**162**	**1,031**	**13,827**
Net value as at 01.01.2015	**81,133**	**78,396**	**1,532**	**19,510**	**10,048**	**190,619**
Net value as at 31.12.2015	**75,592**	**107,312**	**1,217**	**16,882**	**1,368**	**202,371**

As of 31 December 2016 net value of fixed assets used on the basis of finance lease amounted to PLN 18,030 thousand (PLN 15,114 thousand as at 31 December 2015).

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

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

28. Investment properties

Investment properties are mainly buildings and dwellings, as well as plots, which the Bank purchased or acquired in exchange for a partial/total debt reduction under the loan/advance granted, and which are held to earn rentals or for capital appreciation. There are no limitations in realization of the future economic benefits from investment properties and rights to transfer the related income and profits.

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

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

Estimating the fair value of properties, most favourable and best use approach was used (what is the valid use of these properties.

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

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Fair value of investment properties at the beginning of the period	**478,585**	**378,531**
Increases, of which:	84,009	145,141
purchase of properties	81,042	143,885
transfer from assets held for sale	2,429	756
transfer from property, plant and equipment	538	500
Decreases, of which:	(121,410)	(44,030)
sale of properties	(44,339)	(3,362)
transfer to assets held for sale	(66,635)	(26,782)
transfer to property, plant and equipment	(4,677)	(2,044)
other decreases	(5,759)	(11,842)
Net gain/ (loss) on fair value adjustments	(19,922)	(1,057)
Fair value of investment properties at the end of the period	**421,262**	**478,585**

In 2016 and 2015 the following amounts of income and expenses related to investment properties were recognized in the income statement:

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Rental income from investment properties	4,683	4,220
Direct operating expenses related to investment properties, which generated rental income in the period	568	769
Direct operating expenses related to investment properties, which did not generate rental income in the period	2,388	4,758

29. Finance and operating lease

Finance lease liabilities

Under finance lease agreements the Bank uses cars, IT equipment, technical equipment and other equipment. In accordance with concluded contracts leased assets are used by the Bank during the whole term of the contract. In exchange for obtained rights for using of leased assets, the Bank is obliged to make lease payments in the amounts and terms described in lease contracts. After the end of a lease contract the Bank has the right to purchase leased asset provided that all liabilities towards lessor have been settled. If the Bank does not use the option to purchase leased asset, it is obliged to return the leased asset to the lessor. Some of lease contracts envisage the right to extend the lease period. No other restrictions are envisaged by lease contracts. Contingent fees are not envisaged either.

	Minimum lease payments		Present value of minimum lease payments	
	31.12.2016 PLN thousand	31.12.2015 PLN thousand	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Lease liabilities:	**12,044**	**12,560**	**11,825**	**12,385**
up to 1 year	4,705	1,494	4,677	1,487
from 1 year to 5 years	7,339	11,066	7,148	10,898
Future financial burden	(219)	(175)		
Present value of minimum lease payments	**11,825**	**12,385**		

As of 31 December 2016 net value of fixed assets used on the basis of finance lease amounted to PLN 18,030 thousand (PLN 15,114 thousand as of 31 December 2015).

Operating lease – Bank as a lessor

The Bank earns income from renting business premises and residential investment property held. These agreements are classified as operating lease agreements. These agreements do not provide for contingent fees incurred by the lessee, from the provisions of the lease agreements do not arise limitations. The agreements are concluded mainly for a specified period of 2-5 years, with the renewal or purchase option.

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Payments due from the balance sheet date:		
up to 1 year	3,261	2,363
from 1 year to 5 years	5,169	3,129
Total, future minimum payments arising from irrevocable operating lease	**8,430**	**5,492**

Operating lease – Bank as a lessee

Operating lease agreements, in which the Bank is a lessee, comprise car and real estate rental used by the Bank in the ordinary course of actions. In accordance with concluded contracts leased assets are used by the Bank during the whole term of the contract. In exchange for obtained rights for using of leased assets, the Bank is obliged to make lease payments in the amounts and terms described in lease contracts. Some of the agreements provide renewal options.

The lease payments are recognized as an expense in the income statement over the lease term on a straight-line basis.

The value of minimum lease payments under operating leases recognized as 2016 expense amounted to PLN 104,091 thousand (PLN 112,331 thousand in 2015).

In 2016 and 2015 there were no significant contingent rent provisions or irrevocable sublease agreements.

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Payments due from the balance sheet date:		
up to 1 year	42,917	63,571
from 1 year to 5 years	91,586	143,518
over 5 years	6,252	20,077
Total, future minimum payments arising from irrevocable operating lease	**140,755**	**227,166**

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

30. Non-current assets held for sale

Non-current assets held for sale as at 31 December 2016 and 2015 comprise of properties not used by the Bank, which expected are expected to be disposed in one year.

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Non-current assets held for sale at the beginning of the period	**19,432**	**4,494**
Increases, of which:	67,089	27,743
transfer from property, plant and equipment	454	961
transfer from investment properties	66,635	26,782
Decreases, of which:	(64,917)	(12,805)
transfer to investment properties	(2,429)	(756)
sale/liquidation	(62,488)	(12,049)
Non-current assets held for sale at the end of the period	**21,604**	**19,432**

31. Other assets

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Receivables from sundry debtors, of which:	546,837	1,181,992
tax, subsidies and social insurance receivables	1,186	1,709
payment cards settlements	15,999	10,205
other receivables *	529,652	1,170,078
Accrued expenses	25,668	33,787
Income to be received	4,227	32,240
Recourses and guarantee deposits	3,691	6,450
Other assets	451	515
Total other assets	**580,874**	**1,254,984**
Impairment allowances	(23,793)	(19,890)
Total other assets, net	**557,081**	**1,235,094**

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

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Impairment allowances on other assets at the beginning of the period	**19,890**	**16,139**
Increases recognized in the income statement	1,993	3,060
Decreases recognized in the income statement	(185)	(366)
Other increases	2,095	1,057
Impairment allowances on other assets at the end of the period	**23,793**	**19,890**

32. Amounts due to banks and financial institutions

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Current accounts	65,884	52,187
Deposits of other banks and financial institutions	79,215	71,090
Loans and advances received	2,107,337	2,742,154
Repurchase agreements (repo)	-	591,237
Other amounts due to banks	1,712	989
Total amounts due to banks and financial institutions	**2,254,148**	**3,457,657**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Amounts due with variable interest rate	2,176,791	3,441,491
Amounts due with fixed interest rate	77,357	16,166
Total amounts due to banks and financial institutions	**2,254,148**	**3,457,657**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Current liabilities	69,455	107,038
Term liabilities with due date:	2,184,693	3,350,619
up to 1 month	33,385	15,041
from 1 month to 3 months	69,825	5,195
from 3 months to 1 year	881,628	1,226,583
from 1 year to 5 years	1,102,146	2,103,800
over 5 years	97,709	-
Total amounts due to banks and financial institutions	**2,254,148**	**3,457,657**

33. Amounts due to customers

	31.12.2016 PLN thousand	31.12.2015 (restated) PLN thousand
Amounts due to corporate entities	**8,153,801**	**9,195,273**
current accounts and overnight deposits	2,022,771	1,931,852
term deposits	6,131,030	7,263,421
Amounts due to budgetary entities	**2,424,947**	**3,175,828**
current accounts and overnight deposits	1,455,464	1,286,456
term deposits	969,483	1,889,372
Amounts due to natural persons	**42,527,188**	**43,441,702**
current accounts and overnight deposits	6,958,360	5,807,569
term deposits	35,568,828	37,634,133
Total amounts due to customers	**53,105,936**	**55,812,803**

	31.12.2016 PLN thousand	31.12.2015 (restated) PLN thousand
Amounts due with variable interest rate	11,059,533	10,038,975
Amounts due with fixed interest rate	42,046,403	45,773,828
Total amounts due to customers	**53,105,936**	**55,812,803**

	31.12.2016 PLN thousand	31.12.2015 (restated) PLN thousand
Current accounts and overnight deposits	10,436,595	9,025,877
Term liabilities with due date:	42,669,341	46,786,926
up to 1 month	8,537,184	12,322,829
from 1 month to 3 months	13,809,356	11,692,040
from 3 months to 6 months	9,613,761	11,650,241
from 6 months to 1 year	5,623,194	6,656,113
from 1 year to 5 years	4,067,497	2,937,809
over 5 years	1,018,349	1,527,894
Total amounts due to customers	**53,105,936**	**55,812,803**

34. Debt securities issued

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Debt securities issued, of which:	2,573,020	2,800,389
subordinated bonds	2,397,693	2,097,640
other bonds	167,311	694,014
bank securities	8,016	8,735
Interest, of which:	31,916	29,431
on subordinated bonds	31,184	26,646
on other bonds	701	2,750
on bank securities	31	35
Total debt securities issued	**2,604,936**	**2,829,820**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Debt securities issued with maturity date:		
up to 1 month	5,126	57,876
from 1 month to 3 months	21,049	49,845
from 3 months to 1 year	274,319	66,797
from 1 year to 5 years	1,939,392	2,366,420
over 5 years	365,050	288,882
Total debt securities issued	**2,604,936**	**2,829,820**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Amounts due with variable interest rate	2,586,002	2,709,881
Amounts due with fixed interest rate	18,934	119,939
Total debt securities issued	**2,604,936**	**2,829,820**

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

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

Type of redeemed securities	Issue date	Redemption date	Number of securities	Nominal value PLN thousand
Getin Noble Bank Bonds GNB15012	2015-07-10	2016-01-11	535	53,500
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-01-28	2,082	2,082
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-02-11	3,882	3,882
Getin Noble Bank Bonds GNB15016	2015-11-25	2016-02-25	150	15,000
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-03-10	711	711

Type of redeemed securities	Issue date	Redemption date	Number of securities	Nominal value PLN thousand
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-03-11	1,089	10,890
Getin Noble Bank Bonds 32/2013	2013-06-20	2016-03-18	70	7,000
Getin Noble Bank Bonds 11/2013	2013-03-28	2016-03-29	30	15,000
Getin Noble Bank Bonds GNB15016	2015-10-13	2016-04-12	150	15,000
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-05-06	1,067	1,067
Getin Noble Bank Bonds 23/2013	2013-05-15	2016-05-16	80	40,000
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-05-19	52	520
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-05-24	83	830
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-05-27	1,641	16,410
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-02	10,639	106,390
Getin Noble Bank Bonds GNB14018	2014-12-19	2016-06-02	5,000	50,000
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-06-02	268	268
Getin Noble Bank Bonds GNB14003	2014-07-18	2016-06-02	6,500	65,000
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-06	2,361	23,610
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-08	1,739	17,390
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-14	5,005	50,050
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-06-14	90	90
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-17	1,500	15,000
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-06-17	878	878
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-22	2,065	20,650
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-06-22	353	353
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-24	100	1,000
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-06-28	1,499	14,990
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-06-29	249	249
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-07-01	444	444
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-07-01	565	5,650
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-07-06	535	535
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-07-08	750	750
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-07-13	539	539
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-07-18	543	543
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-07-18	23	230
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-07-20	107	107
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-08-03	427	427
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-08-04	12	120
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-08-09	36	360
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-08-09	71	71
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-08-12	51	510
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-08-17	8	80
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-08-24	35	35
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-08-25	35	35
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-09-06	83	83
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-09-08	50	500
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-09-13	63	63
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-09-15	50	500
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-09-16	37	370
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-09-20	35	35
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-09-23	295	295
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-10-07	171	171
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-10-19	21	21
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-10-20	200	2,000

Type of redeemed securities	Issue date	Redemption date	Number of Securities	Nominal value PLN thousand
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-10-24	995	995
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-10-26	60	600
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-10-27	53	53
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-11-02	2,558	2,558
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-11-23	35	35
Getin Noble Bank Bonds GNB14001	2014-06-30	2016-11-24	46	460
Getin Noble Bank Bonds series SP-I	2015-03-23	2016-12-02	35	35
Total			**58,836**	**567,020**

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

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

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

35. Other liabilities

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Interbank settlements	58,745	8,914
Sundry creditors, of which:	79,632	615,879
statutory liabilities	24,697	28,699
payment cards settlements	128	1,904
other *	54,807	585,276
Finance lease liabilities	11,825	12,385
Accruals	30,478	38,919
Deferred income	13,129	19,693
Liabilities arising from securitization	1,892,127	2,313,200
Other liabilities	17,504	28,419
Total other liabilities	**2,103,440**	**3,037,409**

* Item „Sundry creditors – other" as at 31 December 2015 includes an accrual for contribution to the Borrowers Support Fund in the amount of PLN million and the liability due to the purchase of investment certificates PLN 363 million.

36. Provisions

	Restructuring provision PLN thousand	Provision for litigation PLN thousand	Provision for employee benefits PLN thousand	Provision for issued commitments and guarantees PLN thousand	Total PLN thousand
Provisions as at 01.01.2016	**-**	**4,477**	**14,361**	**2,883**	**21,721**
Recognition/ actualisation	3,248	1,293	872	6,158	**11,571**
Utilisation	(3,145)	(1,600)	(730)	-	**(5,475)**
Reversal	-	-	(2,331)	(5,564)	**(7,895)**
Provisions as at 31.12.2016	**103**	**4,170**	**12,172**	**3,477**	**19,922**

	Restructuring provision PLN thousand	Provision for litigation PLN thousand	Provision for employee benefits PLN thousand	Provision for issued commitments and guarantees PLN thousand	Total PLN thousand
Provisions as at 01.01.2015	**394**	**3,827**	**14,572**	**4,562**	**23,355**
Recognition/ actualisation	-	1,000	1,430	3,279	**5,709**
Utilisation	(155)	-	(856)	-	**(1,011)**
Reversal	(239)	(350)	(785)	(4,958)	**(6,332)**
Provisions as at 31.12.2015	**-**	**4,477**	**14,361**	**2,883**	**21,721**

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Provision for retirement and disability benefits	1,401	1,334
Provision for unused holidays	10,771	13,027
Total provision for employee benefits	**12,172**	**14,361**

Provision for retirement and disability benefits is created individually for each employee based on an actuarial valuation performed by an independent actuary. The basis for calculation of provisions is the expected amount of retirement benefit that the Bank is obliged to pay pursuant to the remuneration policy. The accumulated provisions equal discounted future payments, considering employee rotation, and relate to the period ended on the last day of the reporting period. Presented below are changes in a provision for future employee benefits:

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Present value of the obligation at the beginning of the period	**1,334**	**1,284**
Total expense recognized in the income statement, of which:	292	189
Current service cost	160	159
Interest cost	35	30
Past service gains (effect of change in rules for paying benefits)	(330)	-
Past service cost (effect of change in retirement age)	427	-
Total expense recognized in the other comprehensive income, of which:	(160)	(43)
Actuarial (gains)/ losses due to ex post adjustments of assumptions	(86)	8
Actuarial (gains)/ losses due to changes in demographic variables	21	30
Actuarial (gains)/ losses due to changes in financial variables	(95)	(81)
Benefits paid	(65)	(96)
Present value of the obligation at the end of the period	**1,401**	**1,334**
Present value of the short-term obligation	**273**	**189**
Present value of the long-term obligation	**1,128**	**1,145**

(data in PLN thousand)

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

	31.12.2016		31.12.2015	
	+0,25 pp.	-0,25 pp.	+0,25 pp.	-0,25 pp.
Provision for retirement and disability benefits	1,361	1,443	1,293	1,339

Provision for unused leave is created individually for each employee based on the number of days of unused leave.

Legal settlements

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

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

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

37. Share capital

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

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

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

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

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

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

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

38. Other capital

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Reserve capital	2,278,568	2,277,449
Revaluation reserve, of which:	(185,832)	(121,574)
valuation of available-for-sale financial assets	(91,171)	(14,840)
cash flow hedge	(94,611)	(106,555)
actuarial gains/(losses)	(50)	(179)
Other capital reserves	279,084	40,571
Total other capital	**2,371,820**	**2,196,446**

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Revaluation reserve on available-for-sale financial assets at the beginning of the period	**(14,840)**	**(13,035)**
Increase/ (decrease) due to remeasurement	(68,831)	6,482
Accumulated (profit)/ loss transferred to income statement due to sale/ redemption	(7,500)	(8,287)
Revaluation reserve on available-for-sale financial assets at the end of the period	**(91,171)**	**(14,840)**

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

39. Dividends paid and proposed

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

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

The Management Board of the Bank does not recommend payment of a dividend from the profit of 2016.

The PFSA's recommendation on dividend policy for banks

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

40. Contingent liabilities

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

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

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Financial contingent liabilities granted	**2,131,104**	**2,104,279**
to financial entities	346,403	194,821
to non-financial entities	1,724,598	1,856,149
to budgetary entities	60,103	53,309
Guarantees granted	**174,556**	**180,570**
to financial entities	15,143	15,203
to non-financial entities	152,921	158,468
to budgetary entities	6,492	6,899
Total contingent liabilities granted	**2,305,660**	**2,284,849**

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

41. Fair value of financial assets and liabilities

The fair value is the price that would be obtained for the sale of an asset or paid to transfer a liability in a transaction carried out in the normal manner between market participants at the measurement date.

For many financial instruments their market values are not available, therefore fair values are estimated using various valuation techniques. The fair value of financial assets and liabilities was measured using a model based on estimates of present value of future cash flows by discounting cash flows using market interest rates.

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

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

Cash and balances with the Central Bank

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

Amounts due from banks and financial institutions

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

Loans and advances to customers

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

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

Amounts due to banks and financial institutions

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

Amounts due to customers

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

Debt securities issued

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

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

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

	31.12.2016		31.12.2015 (restated)	
	Carrying value PLN thousand	Fair value PLN thousand	Carrying value PLN thousand	Fair value PLN thousand
ASSETS:				
Cash and balances with the Central Bank	3,152,193	3,152,193	2,724,460	2,724,460
Amounts due from banks and financial institutions	996,550	996,550	2,008,466	2,008,466
Loans and advances to customers*	47,442,162	44,631,670	50,455,467	48,606,696
Held-to-maturity financial assets	202,641	207,193	154,322	152,265
LIABILITIES:				
Amounts due to banks and financial institutions	2,254,148	2,254,148	3,457,657	3,457,657
Amounts due to customers	53,105,936	53,945,910	55,812,803	56,442,109
Debt securities issued	2,604,936	2,441,743	2,829,820	2,554,769

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

The Bank classifies the individual financial assets and liabilities measured at fair value by applying the following hierarchy:

Level 1

Financial assets and liabilities measured at fair value based on market quotations available in active markets for identical instruments. To this category Bank classifies debt securities and available-for-sale equity instruments traded on a regulated market.

Level 2

Financial assets and liabilities measured using techniques based on market quotations directly observed or other information based on market quotations. To this category Bank classifies money bills of National Bank of Poland and derivatives.

Level 3

Financial assets and liabilities measured using techniques based on quotations which cannot be directly observed on the market. To this category Bank classifies shares that are not quoted on Warsaw Stock Exchange, which are valued at cost less impairment allowance and available-for-sale debt securities which fair value is determined using internal valuation models.

The carrying amounts of financial instruments at fair value by 3 hierarchy levels as at 31 December 2016 and 2015 are presented below:

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

31.12.2015	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand	Total PLN thousand
ASSETS:				
Financial assets measured at fair value through profit or loss	-	-	166,817	**166,817**
Derivative financial instruments	-	119,238	39,836	**159,074**
Available-for-sale financial assets	8,235,150	3,798,693	202,737	**12,236,580**
LIABILITIES:				
Derivative financial instruments	-	1,519,279	-	**1,519,279**

In the year ended 31 December 2016 there were no movements between level 1 and level 2 of the fair value hierarchy, neither any instrument was moved from level 1 or level 2 to level 3 of fair value hierarchy.

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

Derivatives

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

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

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

The NBP bills

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

Shares and equity instruments without quoted market price

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

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

Corporate bonds

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

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

The fair value of securities measured in accordance with the above valuation model (using margins in the range of 2.3% to 4.67%) amounted to PLN 163,897 thousand. In case of downward shift of risk margins by 25 basis points the fair value increases by PLN 816 thousand, in case of upward shift of risk margins by 25 basis points the fair value decreases by PLN 811 thousand.

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

42. Company social benefits fund

The act of 4 March 1994 on the Company Social Benefits Fund with later amendments assumes that the Company Social Benefits Fund is created by employers employing above 20 employees on a full-time basis as at 1 January of the year . The Bank creates such fund and makes periodic allowances. The purpose of the Fund is to finance social activity, loans granted to its employees and other social costs.

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

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Allowances for the Fund during the reporting period	2,759	3,126

43. Additional notes to the statement of cash flows

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

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

Cash and cash equivalents

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

	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Cash and balances with the Central Bank	3,152,193	2,724,460
Current amounts due from banks	23,170	32,786
Total cash and cash equivalents	**3,175,363**	**2,757,246**

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

2016	Balance sheet change PLN thousand	Statement of cash flows PLN thousand	Difference PLN thousand	
Change in amounts due from banks and financial institutions	1,011,916	1,002,300	9,616	1)
Change in derivative financial instruments (assets)	68,488	68,879	(391)	2)
Change in available-for-sale financial assets	533,453	457,122	76,331	3)
Change in held-to-maturity financial assets	(48,319)	(12,486)	(35,833)	4)
Change in amounts due to banks and financial institutions	(1,203,509)	(553,165)	(650,344)	5)
Change in derivative financial instruments (liability)	141,383	152,935	(11,552)	6)
Change in debt securities issued	(224,884)	2,136	(227,020)	7)
Change in provisions	(1,799)	(1,669)	(130)	8)

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

44. Information on operating segments

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

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

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

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

Selected items of the income statement		01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 (restated) PLN thousand
Interest income	Mortgage loans	986,000	1,126,239
	Car loans	169,618	225,076
	Retail loans	626,628	640,132
	Corporate loans	486,626	484,142
	Other amounts due from clients	19,587	14,577
	Other activities of the Bank	492,689	531,312
	Total	**2,781,148**	**3,021,478**
Interest expense	Retail deposits	(1,104,308)	(1,351,022)
	Corporate deposits	(272,601)	(285,105)
	Other activities of the Bank	(124,592)	(228,592)
	Total	**(1,501,501)**	**(1,864,719)**
Net fee and commission income	Mortgage loans	4,409	12,397
	Car loans	5,965	9,232
	Retail loans	402	5,800
	Corporate loans	8,261	9,613
	Other activities of the Bank	39,941	229,035
	Total	**58,977**	**266,077**
Dividend income		**84,945**	**31,728**
Result on financial instruments measured at fair value through profit or loss and net foreign exchange gains	Mortgage loans	15,774	15,217
	Car loans	513	2,037
	Other activities of the Bank	6,674	3,654
	Total	**22,961**	**20,908**
Result on other financial instruments		**84,736**	**28,220**
Result on investments in subsidiaries, associates and joint ventures		**209 604**	**131,187**
Other operating income		**36 744**	**30,960**
Other operating expense		**(101 150)**	**(96,863)**
Administrative expenses		**(807 900)**	**(1,128,927)**
Net impairment allowances on financial assets and off-balance sheet provisions	Mortgage loans	(254,103)	(207,446)
	Car loans	(31,117)	15,950
	Retail loans	(261,063)	(201,976)
	Corporate loans	(87,532)	(25,718)
	Other activities of the Bank	(54,143)	2,666
	Total	**(687,958)**	**(416,524)**
Share in profits (losses) of associates under the equity method		**(3,388)**	**11,667**
Tax on certain financial institutions		**(38 273)**	**-**
Profit before tax		**138,945**	**35,192**
Income tax		(29 942)	(22,406)
Net profit		**109,003**	**12,786**

Selected items of the statement of financial position		31.12.2016 PLN thousand	31.12.2015 (restated) PLN thousand
Assets	Mortgage loans	30,618,593	32,143,117
	Car loans	1,955,736	2,539,003
	Retail loans	4,261,142	4,286,218
	Corporate loans	10,606,691	11,487,129
	Other assets	19,436,197	21,306,922
	Total	**66,878,359**	**71,762,389,389**
Liabilities	Retail deposits*	45,465,940	46,454,740
	Corporate deposits*	7,605,507	9,659,495
	Other liabilities and equity	13,806,912	15,648,154
	Total	**66,878,359**	**71,762,389**

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

45. Related party transactions

The 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.

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

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

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

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

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

31.12.2015	Statement of financial position						Off-balance
	Assets – loans and purchased receivables PLN thousand	Assets - financial instruments PLN thousand	Assets- other receivables PLN thousand	Liabilities - deposits PLN thousand	Other liabilities PLN thousand	Impairment allowances PLN thousand	Financial liabilities and guarantees granted PLN thousand
Subsidiaries	**1,787,280**	**3,086**	**48,241**	**938,413**	**2,253,940***	**143**	**165**
Associates –Open Finance S.A. Capital Group	**-**	**80,903**	**7,722**	**12,047**	**1,637**	**-**	**-**
Joint ventures – Getin Leasing S.A. Capital Group	**5,313,271**	**14,986**	**1,283**	**61,600**	**748**	**83**	**472**
Entities related to the ultimate parent:	**262,294**	**8,783**	**329,248**	**309,874**	**15,822**	**409**	**12,341**
Entities of Getin Holding S.A. Capital Group	31,041	8,783	329,118	69,360	14,374	48	10,656
Entities of LC Corp B.V. and LC Corp S.A. Group	231,250	-	130	238,208	1,446	361	1,676
Other entities	3	-	-	2,306	2	-	9
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**324**	**-**	**-**	**6,717**	**-**	**-**	**2,024**

* including 363 million due to the acquisition of certificates of Debtor NS FIZ – paid in January 2016.

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

01.01.2015-31.12.2015	Income statement				
	Interest and commission income PLN thousand	Interest and commission expense PLN thousand	Other purchases PLN thousand	Other sale PLN thousand	Dividend income PLN thousand
Subsidiaries	**125,815**	**72,202**	**13,836**	**3,351**	**17,639**
Associates –Open Finance S.A. Capital Group	**7,366**	**52,317**	**2,061**	**952**	**-**
Joint ventures – Getin Leasing S.A. Capital Group	**170,973**	**943**	**5,206**	**2,809**	**-**
Entities related to the ultimate parent:	**23,866**	**16,564**	**31,727**	**289,526**	**-**
Entities of Getin Holding S.A. Capital Group	14,708	12,980	291	289,510	-
Entities of LC Corp B.V. and LC Corp S.A. Group	9,144	3,575	24,860	-	-
Other entities	14	9	6,576	16	-
Members of the Management Board and the Supervisory Board of Getin Noble Bank S.A.	**29**	**216**	**-**	**-**	**-**

Selected transactions with related party

Sale of shares of Getin Leasing S.A.

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

Sale of shares of Noble Funds TFI S.A.

On 29 April 2016 the Bank completed the sale transaction of 3 packages of 9993 shares of Noble Funds TFI S.A. each, constituting 29.97% of its share capital, which were sold to Open Finance S.A., Open Life S.A. and RB Investcom.

Settlement of the securitization transaction

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

Sale of portfolio of receivables

In 2016 the Bank sold to Idea Bank S.A. the portfolio of unimpaired lease receivables at the nominal value of PLN 660 million and to Debtor NS FIZ the portfolio of impaired loans with a capital of PLN 53 million.

Sale of shares of Biuro Informacji Kredytowej S.A.

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

Purchase of lease receivables

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

Sale of investment properties

In 2016 the Bank made a number of sales of investment properties (mainly land) to special purpose vehicles of Property FIZAN for a total net price of PLN 43 million.

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

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Management Board of Getin Noble Bank S.A.	**10,435**	**7,003**
Short-term employee benefits	9,392	6,639
Share-based payments	1,043	364
Supervisory Board of Getin Noble Bank S.A.	**1,243**	**1,084**
Short-term employee benefits	1,243	1,084
Total remuneration of the Management Board and the Supervisory Board of the Bank	**11,677**	**8,087**

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

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

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

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

The variable components of remuneration of members of the Management Board of Getin Noble Bank S.A. are accounted in a manner ensuring effective realization of adopted in Getin Noble Bank S.A. policy of the variable components of remuneration. The amount of the variable components of remuneration is determined based on the appraisal of work in 3-years horizon and the financial results of the Bank. To evaluate the work performance, financial and non-financial criteria are used.

The results of the Bank used in determining the variable components of remuneration embrace the cost of the Bank risk, cost of capital and liquidity risk in long-term perspective. The maximum ratio of variable remuneration to fixed remuneration cannot exceed 100% of the total fixed remuneration received in the Bank and in its subsidiaries.

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

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

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

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

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

46. Remuneration of the auditor

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

	01.01.2016-31.12.2016 PLN thousand	01.01.2015-31.12.2015 PLN thousand
Statutory audit of the annual financial statements	386	386
Other certifying services, including the review of the financial statements	360	372
Total remuneration of the auditor	**746**	**758**

47. Employment

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

	31.12.2016	31.12.2015
Number of employees in persons	4,916	5,734
Number of employees in full-time equivalents	4,890.5	5,648.6

48. Subsequent events

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

III. RISK MANAGEMENT IN THE BANK

Getin Noble Bank S.A., carrying out its operational activity, is subject to the following key risks: credit risk, liquidity risk, market (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 Board of the Bank is responsible for managing risk at the strategic level. For the purpose of operational risk it established committees, responsible for particular risk areas: the Credit Committee, Advisory Committee, the Asset and Liability Management Committee and 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 Bank, within internal limits and in line with the supervisory regulations.

The Bank takes into account the market regulations and requirements of supervisory authorities, especially Polish Financial Supervision Authority regulations. The corporate governance concerning financial risk management policies is performed by the Supervisory Board.

1. Credit risk

Credit risk is the potential loss incurred by the entity connected with customer's failure to repay loan or its part within terms described in the loan 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 loan portfolio 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 the risk,
- improvement of quality of the existing loan portfolio.

Structure and organization of credit risk management unit

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

Supervisory Board of the Bank

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

Management Board of the Bank

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

Credit Committee of the Bank

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

Advisory Committee of the Bank

Advisory Committee of the Bank constitutes 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. 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 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 formal 'Credit Strategy and Policy' and 'Credit Exposures Risk Management Strategy and Policy', which define policies, 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 (PFSA resolutions) and to macroeconomic factors, which may, in the Bank's opinion, have influence on credit risk increase. In particular, since 2010 the Bank continuously monitors the credit risk of lending activities and constantly modifies processes/ credit products adapting them to changing market realities.

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.

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, overdraft in current account),
- servicing small and medium-sized enterprises and public entities.

Within above mentioned areas procedures for particular credit products exist in the Bank. In order to ensure the objectivity of credit risk assessment in the Bank, within the structure of trading 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 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 natural persons - based on procedures relating to the assessment of client's creditworthiness (scoring is used for cash loans, car loans and overdraft on 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 overdraft on current account) assesses creditworthiness 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 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 clients) 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 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 concentration risk, of which: industry risk (determines maximum 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,
- monitor the large exposures and sale limits of mortgage loans,
- verify the accuracy and adequacy of the impairment allowances created by the Bank,
- perform stress tests for particular types of products,
- submit periodic management reports to the Supervisory and the Management Board.

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

Central Bank) only exposure to the group of entities related to the Bank by the parent and the exposure to GNB Leasing Plan Ltd. exceeds 10% of the Bank's own funds.

Risk management on currency and currency indexed loan

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 backed 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 credit risk portfolio are conducted on the assumption that interest rates will increase by 1,000 base points, 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 and drop in income on credit risk in the above mentioned portfolios.

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

Principles for using collateral and policies of risk reduction

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

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

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

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

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

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,
- withdrawal from charging interest for a certain time of the whole or part of the debt,
- postponement (extension) of principal and interest repayment dates differently in relation to the current repayment schedule (individual repayment schedule),
- 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 difficulties and are not able to meet the original terms of the loan agreement. Assessment of ability of a debtor to meet the conditions referred to in the restructuring annex (debt repayment on fixed dates) is an element of the restructuring process. The Bank providing facilities to the customer (forbearance) makes appropriate entries in the system, which allows the identification of the restructured loan 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 recognized, 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 recognized.

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

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

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

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

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

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

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

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

Restructured exposures	31.12.2016 PLN thousand	31.12.2015 PLN thousand
The value of collaterals	2,603,444	2,986,077

Structure of the loan portfolio

The structure of the Bank's loan portfolio by type of loan, the geographical market segments and industry as of 31 December 2016 and 2015 are presented in the following tables. Percentage share in loan portfolio is calculated based on nominal values.

(data in PLN thousand)

	% share in portfolio	
	31.12.2016	31.12.2015
Loans granted to natural persons:	74.35	72.63
car loans	1.85	1.62
instalment loans	0.41	0.56
housing, construction and mortgage loans	62.14	61.20
other loans	9.95	9.25
Corporate loans	25.65	27.37
Total	**100.00**	**100.00**

Concentration by industry	% share in portfolio	
	31.12.2016	31.12.2015
Agriculture and hunting	0.30	0.36
Mining	0.05	0.07
Manufacturing	1.85	2.05
Electricity and gas industry	0.05	0.08
Construction industry	2.88	3.20
Wholesale and retail	4.73	4.70
Transport, warehouse management and communication	3.58	3.74
Financial brokerage	2.32	3.42
Real estate management	3.36	3.20
Public administration	1.46	1.33
Other sections	5.07	5.22
Natural persons	74.35	72.63
Total	**100.00**	**100.00**

Concentration by geographical segments of the market	% share in portfolio	
	31.12.2016	31.12.2015
Administration regions of Poland		
Dolnośląskie	10.60	10.73
Kujawsko-Pomorskie	3.95	3.92
Lubelskie	2.83	2.91
Lubuskie	2.38	2.34
Łódzkie	5.07	5.04
Małopolskie	6.61	6.56
Mazowieckie	24.69	25.35
Opolskie	1.83	1.74
Podkarpackie	2.31	2.32
Podlaskie	1.33	1.33
Pomorskie	7.93	7.72
Śląskie	10.78	10.59
Świętokrzyskie	1.33	1.36
Warmińsko-Mazurskie	3.09	3.02
Wielkopolskie	7.83	7.75
Zachodniopomorskie	4.75	4.70
Resident of a foreign country	2.69	2.62
Total	**100.00**	**100.00**

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

Maximum exposure to credit risk	31.12.2016 PLN thousand	31.12.2015 (restated) PLN thousand
Financial assets:		
Cash and balances with the Central Bank (except for cash)	2,972,730	2,554,222
Amounts due from banks and financial institutions	996,550	2,008,466
Financial assets held for trading	2,411	-
Financial assets measured at fair value through profit or loss	171,972	166,817
Derivative financial instruments	90,586	159,074
Loans and advances to customers	47,442,162	50,455,467
Available-for-sale financial assets	11,703,127	12,236,580
Held-to-maturity financial assets	202,641	154,332
Other assets	507,496	1,152,409
Total financial assets	**64,089,675**	**68,887,357**
Guarantee liabilities	174,556	180,570
Contingent liabilities	2,131,104	2,104,279
Total off-balance sheet liabilities	**2,305,660**	**2,284,849**
Total exposure to credit risk	**66,395,335**	**71,172,206**

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

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

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

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

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

Credit quality of financial assets as at 31 December 2016 and 2015 is presented in the table below:

Credit quality of financial assets as at 31.12.2016	Current and not impaired	Overdue and not impaired			Overdue and impaired	Interest	Impairment allowances (including IBNR)	Total
		Up to 1 month	By 1 to 2 months	Over 2 months				
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Amounts due from banks and financial institutions	**991,383**	**-**	**-**	**-**	**-**	**5,792**	**(625)**	**996,550**
Financial assets held for trading	**2,411**	**-**	**-**	**-**	**-**	**-**	**-**	**2,411**
Financial assets measured at fair value through profit and loss	**171,972**	**-**	**-**	**-**	**-**	**-**	**-**	**171,972**
Loans and advances to customers, of which:	**39,843,466**	**2,043,226**	**464,856**	**284,941**	**7,222,557**	**246,269**	**(2,663,153)**	**47,442,162**
corporate loans	8,523,550	1,261,329	173,362	101,225	822,535	33,527	(308,837)	**10,606,691**
car loans	1,669,968	108,095	17,235	6,992	334,939	5,809	(187,302)	**1,955,736**
mortgage loans	26,233,816	535,746	235,005	156,066	4,759,052	183,651	(1,484,743)	**30,618,593**
retail loans	3,416,132	138,056	39,254	20,658	1,306,031	23,282	(682,271)	**4,261,142**
Available-for-sale financial assets, of which:	**11,702,286**	**-**	**-**	**-**	**11,045**	**-**	**(10,204)**	**11,703,127**
issued by central bank	824,780	-	-	-	-	-	-	**824,780**
issued by banks and other financial institutions	239,288	-	-	-	-	-	-	**239,288**
issued by the State Treasury	10,588,285	-	-	-	-	-	-	**10,588,285**
issued by non-financial institutions	49,933	-	-	-	11,045	-	(10,204)	**50,774**
Held-to-maturity financial assets, of which:	**202,641**	**-**	**-**	**-**	**-**	**-**	**-**	**202,641**
issued by local government units	160,347	-	-	-	-	-	-	**160,347**
issued by non-financial institutions	42,294	-	-	-	-	-	-	**42,294**
Total financial assets	**52,914,159**	**2,043,226**	**464,856**	**284,941**	**7,233,602**	**252,061**	**(2,673,982)**	**60,518,863**

Credit quality of financial assets as at 31.12.2015 (restated)	Current and not impaired	Overdue and not impaired			Overdue and impaired	Interest	Impairment allowances (including IBNR)	Total
		Up to 1 month	By 1 to 2 months	Over 2 months				
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Amounts due from banks and financial institutions	**2,002,959**	**177**	**-**	**-**	**-**	**6,431**	**(1,101)**	**2,008,466**
Financial assets measured at fair value through profit and loss	**166,817**	**-**	**-**	**-**	**-**	**-**	**-**	**166,817**
Loans and advances to customers, of which:	**39,748,603**	**5,234,850**	**489,646**	**281,380**	**6,726,009**	**344,402**	**(2,369,423)**	**50,455,467**
corporate loans	8,999,504	1,671,285	171,931	61,531	797,797	31,126	(246,045)	**11,487,129**
car loans	2,150,885	183,644	18,340	5,954	357,261	8,189	(185,270)	**2,539,003**
mortgage loans	25,119,152	3,188,426	262,273	191,622	4,399,050	281,702	(1,351,979)	**32,090,246**
retail loans	3,479,062	191,495	37,102	22,273	1,171,901	23,385	(586,129)	**4,339,089**
Available-for-sale financial assets, of which:	**12,234,996**	**-**	**-**	**-**	**12,963**	**-**	**(11,379)**	**12,236,580**
issued by central bank	3,798,693	-	-	-	-	-	-	**3,798,693**
issued by banks and other financial institutions	153,474	-	-	-	-	-	-	**153,474**
issued by the State Treasury	8,233,567	-	-	-	-	-	-	**8,233,567**
issued by non-financial institutions	35,481	-	-	-	12,963	-	(11,379)	**37,065**
issued by local government units	13,781	-	-	-	-	-	-	**13,781**
Held-to-maturity financial assets, of which:	**154,322**	**-**	**-**	**-**	**-**	**-**	**-**	**154,322**
issued by local government units	118,125	-	-	-	-	-	-	**118,125**
issued by non-financial institutions	36,197	-	-	-	-	-	-	**36,197**
Total financial assets	**54,307,697**	**5,235,027**	**489,646**	**281,380**	**6,738,972**	**350,833**	**(2,381,903)**	**65,021,652**

2. Operational risk

Definition and purpose of operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. The operational risk covers legal risk, but does not cover strategic risk and reputation risk.

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

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

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

Structure and organization of the operational risk management unit

The process of operational risk management is actively contributed by:

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

In all divisions and at all levels of the Bank’s organizational structure the following groups of units, persons and functions responsible for operational risk management are to be distinguished and are executed at three following levels:

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

The leading role in operational risk management is fulfilled by the Getin Noble Bank S.A. - Supervisory Board and Management Board of the Bank.

The Management Board of the Bank 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 is performed by designated employees of an independent operational risk management unit - Operational Risk Management Office.

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

Operational risk management in the Bank constitutes 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 banking activities providing clients with financial services.

The Bank manages operational risk in accordance with 'Operational Risk Management Strategy' established by the Management Board of the Bank and approved by the Supervisory Board of the Bank:

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

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 own funds to cover operational risk;
- ratios representing 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 Bank'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.

Crucial 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 of the Bank.

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

3. Compliance risk

Compliance risk is defined as the risk of negative effect due to failure the Bank to comply with the provisions of the law (in particular acts, regulations, resolutions) , internal regulations or adopted standards, rules or ethical standards. Strategic goal of compliance risk management is:

- creating the image of the Bank as entity acting in accordance with the law and accepted standards of conduct and in honest, fair and ethical manner;
- mitigating the risk of occurring legal and statutory sanctions or financial losses resulting from breach or misuse of the provisions of the law and accepted standards of conduct, including 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, control, risk mitigation and reporting of risks.

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

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

4. Market risk

Market risk is defined as an uncertainty whether the interest rates, currency exchange rates or prices of securities and other financial instruments held by the Bank 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 is the optimization of the structure of balance sheet and off-balance sheet in order to preserve the adopted relation of profit to the risk undertaken.

4.1. Currency risk

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

Current management of currency risk is within the competence of the Treasury Department, which monitors the level of open currency position resulting from the Bank's activities related in particular to service of the Bank's customers, and deals in cash in the interbank market thus limiting the Bank's exposure to currency risk, as well as in derivatives within the granted limits. The effectiveness of risk management (including hedge) is evaluated on the basis of the level of use of the adopted limits on exposure to risk. 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 by:

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

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

Sensitivity analysis for currency risk

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

VAR (1D, 99.9%)	31.12.2016 PLN thousand	31.12.2015 PLN thousand
Currency risk	384	303

VaR consists of test, with 99.9% probability, of maximal amount of loss on foreign exchange position, which the Bank 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 changes in exchange rates during the last 251 working days. Time series of the same length was used to determine the correlation matrix between the exchange rates. However, this measurement does not express absolute maximal loss on which the Bank is exposed. VaR is the measure describing the risk level in particular moment in time, reflecting position in particular moment, which may not reflect the Bank’s position risk in another moment.

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

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 foreign exchange result and currency risk management, including the Bank's positions in the individual currencies and compliance with the limits set for open currency positions.

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

Currency exposure, by individual classes of assets, liabilities and off-balance sheet liabilities as at 31.12.2016	CURRENCY							Total
	PLN PLN thousand	EUR PLN thousand	CHF PLN thousand	USD PLN thousand	GBP PLN thousand	JPY PLN thousand	Other PLN thousand	PLN thousand
Cash and balances with the Central Bank	2,142,648	970,423	8,329	25,853	4,940	-	-	**3,152,193**
Amounts due from banks and financial institutions	38,601	935,680	5,276	4,643	3,935	3,628	4,787	**996,550**
Loans and advances to customers	33,281,899	975,042	12,801,731	64,729	2	318,758	1	**47,442,162**
Other assets	13,873,822	1,210,542	10,323	192,761	3	3	-	**15,287,454**
Total assets	**49,336,970**	**4,091,687**	**12,825,659**	**287,986**	**8,880**	**322,389**	**4,788**	**66,878,359**
Amounts due to banks and financial institutions	2,250,334	3,733	64	17	-	-	-	**2,254,148**
Amounts due to customers	49,925,193	1,865,460	246,778	1,030,410	34,244	310	3,541	**53,105,936**
Other liabilities	6,384,936	3,570	204	1,053	25	-	42	**6,389,830**
Total liabilities	**58,560,463**	**1,872,763**	**247,046**	**1,031,480**	**34,269**	**310**	**3,583**	**61,749,914**
Equity	5,128,445	-	-	-	-	-	-	**5,128,445**
Total liabilities and equity	**63,688,908**	**1,872,763**	**247,046**	**1,031,480**	**34,269**	**310**	**3,583**	**66,878,359**
CURRENCY EXPOSURE, NET	**14,351,938**	**(2,218,924)**	**(12,578,613)**	**743,494**	**25,389**	**(322,079)**	**(1,205)**	**-**
OFF-BALANCE SHEET ITEMS								
Assets	17,618,687	950,067	2,222,868	1,189,453	26,332	71,496	-	**22,078,903**
Liabilities	4,848,203	3,172,706	14,790,399	446,546	912	386,972	-	**23,645,738**
GAP	**(1,581,454)**	**(3,715)**	**11,082**	**(587)**	**31**	**6,603**	**1,205**	**(1,566,835)**

Currency exposure, by individual classes of assets, liabilities and off-balance sheet liabilities as at 31.12.2015 (restated)	CURRENCY							Total
	PLN	EUR	CHF	USD	GBP	JPY	Other	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Cash and balances with the Central Bank	2,133,091	556,720	9,242	21,952	3,455	-	-	**2,724,460**
Amounts due from banks and financial institutions	116,093	1,857,829	9,373	15,481	5,685	440	3,565	**2,008,466**
Loans and advances to customers	35,711,760	1,170,202	13,207,157	62,664	1	303,683	-	**50,455,467**
Other assets	16,550,930	15,277	7,485	300	4	-	-	**16,573,996**
Total assets	**54,511,874**	**3,600,028**	**13,233,257**	**100,397**	**9,145**	**304,123**	**3,565**	**71,762,389**
Amounts due to banks and financial institutions	2,012,976	843,543	591,237	9,901	-	-	-	**3,457,657**
Amounts due to customers	53,016,494	1,583,211	179,845	1,004,583	26,412	204	2,054	**55,812,803**
Other liabilities	7,400,314	6,452	296	653	177	207	130	**7,408,229**
Total liabilities	**62,429,784**	**2,433,206**	**771,378**	**1,015,137**	**26,589**	**411**	**2,184**	**66,678,689**
Equity	5,083,700	-	-	-	-	-	-	**5,083,700**
Total liabilities and equity	**67,513,484**	**2,433,206**	**771,378**	**1,015,137**	**26,589**	**411**	**2,184**	**71,762,389**
CURRENCY EXPOSURE, NET	**13,001,610**	**(1,166,822),**	**(12,461,879)**	**914,740**	**17,444**	**(303,712)**	**(1,381)**	**-**
OFF-BALANCE SHEET ITEMS								
Assets	15,960,157	2,020,686	480,885	2,490,078	20,830	11,344	-	**20,983,980**
Liabilities	4,312,555	3,170,886	12,938,139	1,575,452	3,472	317,628	89	**22,318,221**
GAP	**(1,354,008)**	**16,622**	**4,625**	**(114)**	**(86)**	**(2,572)**	**1,292**	**(1,334,241)**

4.2. Interest rate risk

Interest rate risk is defined as the risk of a decline in the expected interest income due to changes in market interest rates as well as risk of change in values of opened balance sheet and off-balance sheet positions sensitive to market interest rates changes. The Bank conducts activities aiming to decrease the influence of the unfavourable changes on financial result. The interest rate risk is managed by the Management Board of the 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 is to minimize the risk of negative impact of changes in market interest rates on the Bank's financial standing by, i.a.:

- 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 (including hedge) is evaluated on the basis of the level of use of the adopted limits on exposure to risk.

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

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

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

Repricing gap calculation, the value at risk (VaR) and EaR measures is carried out in the Market Risk and Liquidity Analysis System (SARRP).

Interest rate risk sensitivity analysis

Getin Noble Bank S.A. prepares interest rate risk sensitivity analysis on a daily basis:

	31.12.2016		31.12.2015	
	EaR (+/- 25 pp.) PLN thousand	VAR (1D, 99,9%) PLN thousand	EaR (+/- 25 pp.) PLN thousand	VAR (1D, 99,9%) PLN thousand
Interest rate risk	12,635	20,579	19,951	12,775

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

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

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 or increased level of early termination of deposits – depending on the direction of the exposure), potential changes in the Bank's income and changes in the economic value of the portfolio assuming a "shocking" changes of interest rates, for the revised structure of the portfolio. For assumptions about interest rates, the Bank adopts the following options:

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

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

The Bank measuring its interest rate risk exposure considers the impact of the assumptions for deposits with undefined maturity date, i.e. deposits which contractual maturity is short but real maturity is long (‘sediment’ is kept on these accounts) and the sensitivity of those deposits on interest rates fluctuations is very limited – in practice these are positions with an administered interest rate, i.e. managed by the Bank. The maturity/revaluation date of such items is subject to modelling in accordance with the rules adopted by the Bank.

Other assets and liabilities (including accrued interest, other non- interest bearing assets and liabilities) are presented as non-interest bearing assets/liabilities.

Allocation of assets and liabilities and off-balance sheet items according to the criterion of interest rate risk as at 31.12.2016	Up to 1 month PLN thousand	Over 1 month to 3 months PLN thousand	Over 3 months to 1 year PLN thousand	Over 1 year to 5 years PLN thousand	Over 5 years PLN thousand	Non-interest bearing assets/ liabilities PLN thousand	Total PLN thousand
STATEMENT OF FINANCIAL POSITION ITEMS							
Cash and balances with the Central Bank	2,972,719	-	-	-	-	179,474	**3,152,193**
Amounts due from banks and financial institutions	996,550	-	-	-	-	-	**996,550**
Loans and advances to customers	25,119,297	20,558,789	1,389,178	302,505	72,393	-	**47,442,162**
Financial assets held for trading and financial assets measured at fair value through profit or loss	-	-	-	-	-	174,383	**174,383**
Available-for-sale and held-to-maturity financial assets	4,727,006	160,677	1,319,839	4,857,742	711,927	128,577	**11,905,768**
Other assets	-	-	-	-	-	3,207,303	**3,207,303**
Total assets	**33,815,572**	**20,719,466**	**2,709,017**	**5,160,247**	**784,320**	**3,689,737**	**66,878,359**
Amounts due to banks and financial institutions	209,898	2,005,175	39,075	-	-	-	**2,254,148**
Amounts due to customers	20,740,152	12,791,929	13,306,116	5,370,483	897,256	-	**53,105,936**
Debt securities issued	211,804	1,175,778	1,199,432	17,922	-	-	**2,604,936**
Other liabilities	1,878,243	-	-	-	-	1,906,651	**3,784,894**
Total liabilities	**23,040,097**	**15,972,882**	**14,544,623**	**5,388,405**	**897,256**	**1,906,651**	**61,749,914**
Equity	**-**	**-**	**-**	**-**	**-**	**5,128,445**	**5,128,445**
Total liabilities and equity	**23,040,097**	**15,972,882**	**14,544,623**	**5,388,405**	**897,256**	**7,035,096**	**66,878,359**
BALANCE SHEET GAP	**10,775,475**	**4,746,584**	**(11,835,606)**	**(228,158)**	**(112,936)**	**(3,345,359)**	**-**
OFF-BALANCE SHEET ITEMS							
Interest rate transactions:							
Receivables	4,634,583	8,078,387	1,825,951	1,234,802	153,283	6,151,897	**22,078,903**
Liabilities	5,379,107	9,005,702	1,850,957	1,259,827	46,844	6,103,301	**23,645,738**
OFF-BALANCE SHEET GAP	**(744,524)**	**(927,316)**	**(25,006)**	**(25,025)**	**106,439**	**48,596**	**(1,566,835)**
TOTAL GAP	**10,030,951**	**3,819,268**	**(11,860,612)**	**(253,183)**	**(6,497)**	**(3,296,763)**	**(1,566,835)**

Allocation of assets and liabilities and off-balance sheet items according to the criterion of interest rate risk as at 31.12.2015 (restated)	Up to 1 month PLN thousand	Over 1 month to 3 months PLN thousand	Over 3 months to 1 year PLN thousand	Over 1 year to 5 years PLN thousand	Over 5 years PLN thousand	Non-interest bearing assets/ liabilities PLN thousand	Total PLN thousand
STATEMENT OF FINANCIAL POSITION ITEMS							
Cash and balances with the Central Bank	2,554,211	-	-	-	-	170,249	**2,724,460**
Amounts due from banks and financial institutions	2,008,466	-	-	-	-	-	**2,008,466**
Loans and advances to customers	27,353,410	21,471,389	1,356,996	251,601	22,071	-	**50,455,467**
Financial assets held for trading and financial assets measured at fair value through profit or loss	-	-	-	-	-	166,817	**166,817**
Available-for-sale and held-to-maturity financial assets	7,706,686	115,469	1,662,516	1,109,767	1,727,274	69,190	**12,390,902**
Other assets	-	-	-	-	-	4,016,277	**4,016,277**
Total assets	**39,622,773**	**21,586,858**	**3,019,512**	**1,361,368**	**1,749,345**	**4,422,533**	**71,762,389**
Amounts due to banks and financial institutions	229,130	3,228,527	-	-	-	-	**3,457,657**
Amounts due to customers	24,291,269	10,826,642	16,798,969	2,577,071	1,318,852	-	**55,812,803**
Debt securities issued	270,122	1,135,133	1,387,857	36,708	-	-	**2,829,820**
Other liabilities	2,293,064	-	-	-	-	2,285,345	**4,578,409**
Total liabilities	**27,083,585**	**15,190,302**	**18,186,826**	**2,613,779**	**1,318,852**	**2,285,345**	**66,678,689**
Equity	**-**	**-**	**-**	**-**	**-**	**5,083,700**	**5,083,700**
Total liabilities and equity	**27,083,585**	**15,190,302**	**18,186,826**	**2,613,779**	**1,318,852**	**7,369,045**	**71,762,389**
BALANCE SHEET GAP	**12,539,188**	**6,396,556**	**(15,167,314)**	**(1,252,411)**	**430,493**	**(2,946,512)**	**-**
OFF-BALANCE SHEET ITEMS							
Interest rate transactions:							
Receivables	5,443,131	6,948,839	676,661	861,334	162,486	6,891,529	**20,983,980**
Liabilities	5,988,327	7,795,734	694,234	862,895	48,881	6,928,150	**22,318,221**
OFF-BALANCE SHEET GAP	**(545,196)**	**(846,895)**	**(17,573)**	**(1,561)**	**113,605**	**(36,621)**	**(1,334,241)**
TOTAL GAP	**11,993,992**	**5,549,661**	**(15,184,887)**	**(1,253,972)**	**544,098**	**(2,983,133)**	**(1,334,241)**

5. Liquidity risk

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

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

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

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

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

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

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

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

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

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

Calculation of supervisory liquidity norms and liquidity gap is carried out in the Market Risk and Liquidity Analysis System (SARRP).

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

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

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

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

The Bank carries out simulations on the strength of the Bank in case of increased cash outflows (stress tests). The analyses are an important element in the process of asset and liability management. The Bank has a special procedure in case of a significant rise in liquidity risk, i.e. 'The contingency plan for sustaining liquidity in Getin Bank S.A. in critical situations'.

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

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

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

Supervisory liquidity measures		Minimum value	Value as at	
			31.12.2016	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

Presented below is the analysis of undiscounted financial liabilities by contractual maturity dates:

31.12.2016	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	TOTAL
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Amounts due to banks and financial institutions	103,149	75,230	903,015	1,112,682	100,837	**2,294,913**
Derivative financial instruments	12,591	76,436	271,154	1,298,039	2,441	**1,660,661**
Amounts due to customers	18,989,621	13,855,958	15,379,323	4,389,505	1,434,261	**54,048,668**
Debt securities issued	5,613	31,900	370,755	2,222,896	409,122	**3,040,286**
Total financial liabilities	**19,110,974**	**14,039,524**	**16,924,247**	**9,023,122**	**1,946,661**	**61,044,528**

31.12.2015	Up to 1 month PLN thousand	Over 1 month to 3 months PLN thousand	Over 3 months to 1 year PLN thousand	Over 1 year to 5 years PLN thousand	Over 5 years PLN thousand	TOTAL PLN thousand
Amounts due to banks and financial institutions	122,442	11,959	1,252,818	2,145,438	8,458	**3,541,115**
Derivative financial instruments	57,873	154,109	205,325	1,098,823	3,149	**1,519,279**
Amounts due to customers	21,363,026	11,746,136	18,970,592	3,095,701	2,196,186	**57,371,641**
Debt securities issued	58,173	62,724	162,251	2,683,372	298,797	**3,265,317**
Total financial liabilities	**21,601,514**	**11,974,928**	**20,590,986**	**9,023,334**	**2,506,590**	**65,697,352**

Customer deposits are the main source of financing lending activities of the Bank; the net loans to amounts due to customers ratio does not exceed 86%. Retail deposits predominate within the stable sources of funding, while stable deposits of corporate customers are in addition to general base of the stable sources of funding.

6. Risk related to derivatives

Basic types of risk related to derivative financial instruments are market risk and credit risk.

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

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

Credit risk related to derivatives is the potential cost of signing new contract on the original terms, in case that the other part of agreement does not fulfil its obligation. To estimate the potential value of replacement the Bank uses the same methods, as in case of incurred market risk.

To control the level of taken credit risk, the Bank evaluates the other part of agreements, using the same methods as those for credit decision making.

The Bank concludes transactions related to derivative financial instruments with domestic and foreign banks. Transactions are concluded within the credit limits allocated to particular institutions.

On the basis of adopted procedure of bank's financial status evaluation, the Bank determines the limits of maximal exposure for banks. The percentage limits of particular types of transactions are determined within these limits.

7. Hedge accounting

The Bank applies cash flow hedge for mortgage loan portfolio denominated in CHF and EUR with separated portfolio explicitly determined CIRS float-to-fixed CHF/PLN and EUR/PLN hedging transactions and cash flow hedge of PLN deposits portfolio with separated from real CIRS transactions explicitly determined portfolio of IRS fixed-to-float hedging transactions. During the hedge period the Bank assesses the effectiveness of hedge relationship. The change of fair value of hedging instruments is recognized in revaluation reserve in the amount of effective part of hedge. Ineffective part of hedge is recognized in the profit or loss account.

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

The maturity dates of CIRS hedging transactions at nominal value as at 31 December 2016 and 2015 are presented below:

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

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

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

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

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

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

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

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

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

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

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

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

8. Capital management

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

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

On 22 October 2015 the Polish Financial Supervision Authority (KNF) 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 Article 39 paragraph 1 of the Act of 5 August 2015 on macro-prudential oversight of the financial system and crisis management in the financial sector imposed on Getin Noble Bank S.A. on an individual and consolidated basis a buffer of other systemically important institution in the amount 0.25% of the total risk exposure calculated in accordance with Article 92 paragraph 3 of the CRR Regulation.

According to the decision of 18 October 2016 the Polish Financial Supervision Authority recommended Getin Noble Bank S.A. to maintain an additional capital requirement in order to secure the risk arising from foreign currency mortgage loans to households at the level of 1.89 p.p. above the level of Total capital ratio (TCR). Additional capital requirement should consist of at least 75% of Tier 1 (equivalent of 1,42 p.p.) and of at least 56% of core Tier I capital (equivalent of 1,06 p.p.).

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 Commission are as follows:

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

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

The levels of capital ratios obtained at the end of 2016 are the highest levels that Getin Noble Bank had in recent years.

The level of internal capital intended to cover unexpected losses arising from significant risks present in its operations (Pillar II requirements) is calculated by the Bank based on internal procedure approved by the Management Board and Supervisory Board. Within Pillar II, the Bank applies its own model of the assessment of demand for internal capital, including hedging of capital against additional risks in relation to Pillar I (liquidity risk, result risk, reputation risk, capital risk)

9. Capital adequacy ratio

Capital adequacy ratio as at 31 December 2016 and 2015 was calculated in accordance with the *Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms* (CRR).

The implementation process of the CRR Regulation to Polish law ended on 1 November 2015 – after the entry into force of amendments to the Banking Act and the new Act on macro-prudential supervision of the financial system and crisis management in the financial system.

	31.12.2016 PLN thousand	31.12.2015 (restated) PLN thousand
Tier 1 Capital	4,932,476	4,899,158
Tier 2 Capital	1,363,985	1,472,065
TOTAL OWN FUNDS	**6,296,461**	**6,371,223**
TOTAL CAPITAL REQUIREMENTS	**3,205,788**	**3,607,207**
CAPITAL RATIOS		
Tier 1 Capital ratio	12.3%	10.9%
Total capital ratio	15.7%	14.1%

As at 31 December 2016 and 2015, the portfolio of the Bank did not contain any receivables that could be qualified as exceeding the concentration limits, therefore the Bank estimates the concentration risk to be not significant.

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

Artur Klimczak
Acting President of the Management Board

Jerzy Pruski
Vice President of the Management Board

Krzysztof Basiaga
Member of the Management Board

Marcin Dec
Member of the Management Board

Karol Karolkiewicz
Member of the Management Board

Radosław Stefurak
Member of the Management Board

Maciej Szczechura
Member of the Management Board

Signature of the person responsible for the accounting books:

Beata Kisielewska
Director of Accounting Department

Warsaw, 13 March 2017