This document is a free translation of the Polish original. Terminology current in America has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Financial statements of
RAIFFEISEN BANK POLSKA S.A.
for the year 2015

The Management Board presents the financial statements for the year ended 31 December 2015

Piotr Czarnecki	President of the Management Board	....
name and surname	*position/function*	*signature*
Maciej Bardan	First Vice-President of the Management Board	....
name and surname	*position/function*	*signature*
Jan Czeremcha	Vice-President of the Management Board	....
name and surname	*position/function*	*signature*
Ryszard Drużyński	Vice-President of the Management Board	....
name and surname	*position/function*	*signature*
Łukasz Januszewski	Member of the Management Board	....
name and surname	*position/function*	*signature*
Marek Patuła	Member of the Management Board	....
name and surname	*position/function*	*signature*
Piotr Konieczny	Member of the Management Board	....
name and surname	*position/function*	*signature*
Patrycja Zenik-Rychlik	Head of Financial Accounting and Tax Department	....
name and surname	*position/function*	*signature*

Warsaw, 8 March 2016

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Statement of profit or loss

	Note	For the year ended 31 December 2015	For the year ended 31 December 2014
Interest income		1 634 379	1 864 715
Interest expense		-699 488	-780 053
Net interest income	4	**934 891**	**1 084 662**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	5	-157 428	-82 388
including Proceeds from sale of receivables and other		*35 060*	*261 712*
Fee and commission income		668 250	668 854
Fee and commission expense		-94 420	-93 741
Net fee and commission income	6	**573 830**	**575 113**
Net income from financial instruments measured at fair value and net foreign exchange result	7	39 625	58 414
Dividend income		40 986	43 026
General administrative expenses	8	-1 236 937	-1 234 693
Other operating income	9	33 622	14 504
Other operating expenses	9	-21 555	-54 150
Profit before tax		**207 034**	**404 488**
Income tax expense	10	-46 959	-90 350
Net profit		**160 075**	**314 138**

Weighted average number of ordinary shares (in units)	*11*	248 260	243 335
Profit attributable to the Bank's equity holders per one ordinary share (in PLN)	*11*	645	1 291
Weighted average number of diluted shares (in units)	*11*	248 260	243 335
Profit attributable to the Bank's equity holders per one diluted share (in PLN)	*11*	645	1 291

Notes presented on pages 12- 155 are an integral part of the Financial Statements.

Statement of comprehensive income

	For the year ended 31 December 2015	For the year ended 31 December 2014
Net profit	**160 075**	**314 138**
Other taxable income that may be reclassified to profit or loss, including:	**51 590**	**-37 262**
Valuation of cash-flow hedge derivatives, gross	10 585	-52 419
Income tax on cash-flow hedge derivatives	-2 011	9 960
Valuation of available for sale financial assets, gross	53 106	6 416
Income tax on available for sale financial assets	-10 090	-1 219
Total comprehensive income for the year	**211 665**	**276 876**

Statement of financial position

Assets	Note	As at 31 December 2015	As at 31 December 2014
Cash and balances with Central Bank	12	2 703 510	2 683 875
Amounts due from banks	13	1 204 249	628 385
Financial assets held for trading	16	12 570 410	361 623
Derivative financial instruments	14	562 385	900 213
Investment securities	17	3 827 055	12 514 086
Loans and advances to customers	18	33 689 146	34 716 952
Investments in subsidiaries	19	527 582	521 208
Intangible assets	20	535 346	572 218
Property, plant and equipment	21	124 997	156 274
Deferred tax assets	10	156 167	213 859
Current tax receivables		2 173	27 937
Other assets	22	265 683	224 373
Total assets		**56 168 703**	**53 521 003**

Liabilities and equity	Note	As at 31 December 2015	As at 31 December 2014
Amounts due to banks and other monetary institutions	23	7 935 995	11 242 801
Derivative financial instruments	14	1 478 611	1 124 388
Amounts due to customers	24	38 754 180	33 764 529
Subordinated liabilities	25	724 789	320 006
Liabilities from debt securities issued	26	501 825	501 960
Other liabilities	27	376 372	329 416
Provisions	28	149 170	201 807
Total liabilities		**49 920 942**	**47 484 907**
Equity			
Share capital	29	2 256 683	2 256 683
Supplementary capital		2 287 790	2 287 790
Other capital and reserves	29	1 018 877	947 287
Retained earnings	29	684 411	544 336
Total equity		**6 247 761**	**6 036 096**
Total liabilities and equity		**56 168 703**	**53 521 003**

Notes presented on pages 12- 155 are an integral part of the Financial Statements.

Statement of changes in equity

					Retained earnings		
		Share capital	Supplementary capital	Other capital and reserves	Prior years result	Net profit/(loss) for the year	Total
As at 1 January 2015		**2 256 683**	**2 287 790**	**947 287**	**230 198**	**314 138**	**6 036 096**
Valuation of available for sale financial assets, net		0	0	43 016	0	0	43 016
Valuation of cash-flow hedge derivatives, net		0	0	8 574	0	0	8 574
Net profit for the current year		0	0	0	0	160 075	160 075
Total comprehensive income		**0**	**0**	**51 590**	**0**	**160 075**	**211 665**
Transfer of net result to retained earnings		0	0	0	314 138	-314 138	0
Transactions with owners		**0**	**0**	**20 000**	**-20 000**	**0**	**0**
Transfer of net result to general banking risk reserve		0	0	20 000	-20 000	0	0
As at 31 December 2015	29	**2 256 683**	**2 287 790**	**1 018 877**	**524 336**	**160 075**	**6 247 761**

Notes presented on pages 12- 155 are an integral part of the Financial Statements.

Statement of changes in equity (cont.)

	Note	Share capital	Supplementary capital	Other capital and reserves	Retained earnings: Prior years result	Retained earnings: Net profit/(loss) for the year	Total
As at 1 January 2014		**2 207 461**	**2 214 016**	**944 550**	**140 850**	**129 348**	**5 636 225**
Valuation of available for sale financial assets, net		0	0	5 197	0	0	5 197
Valuation of cash-flow hedge derivatives, net		0	0	-42 459	0	0	-42 459
Net profit for the current year		0	0	0	0	314 138	314 138
Total comprehensive income		**0**	**0**	**-37 263**	**0**	**314 138**	**276 875**
Transfer of net result to retained earnings		0	0	0	129 348	-129 348	0
Transactions with owners		**49 222**	**73 774**	**40 000**	**-40 000**	**0**	**122 996**
Shares issue		49 222	73 774	0	0	0	122 996
Transfer of net result to general banking risk reserve		0	0	40 000	-40 000	0	0
As at 31 December 2014	29	**2 256 683**	**2 287 790**	**947 287**	**230 198**	**314 138**	**6 036 096**

Notes presented on pages 12- 155 are an integral part of the Financial Statements.

Statement of cash flows

Operating activities		For the year ended 31 December 2015	For the year ended 31 December 2014
Profit before tax		**207 034**	**404 488**
Adjustments:		**331 008**	**525 700**
Depreciation and amortization	*20,21*	126 337	146 238
Impairment of investments in subsidiaries		1 126	14 677
Unrealized foreign exchange differences		209 636	274 407
(Gains)/Loss on sale of investments and fixed assets		-3 037	12 774
Transfer of interest and dividend from investing and financing activities		-3 054	77 604
Changes in assets and liabilities		**-9 100 681**	**12 678 045**
Interbank placements, loans and advances to other banks	*35*	-614 240	-359 277
Financial assets held for trading	*35*	-12 387 979	8 171 823
Derivative financial instruments	*35*	501 474	146 648
Loans and advances to customers	*35*	-99 617	-2 870 463
Other assets		-9 062	41 444
Amounts due to banks and other monetary institutions	*35*	-2 671 586	2 479 901
Amounts due to customers	*35*	5 559 147	3 909 965
Other liabilities		46 944	-51 001
Provisions		-52 637	356
Dividends received		40 986	43 026
Income tax paid/received		-1 537	49 970
Interest received		1 533 920	1 763 122
Interests paid		-946 494	-647 469
Net cash flow from operating activities		**-8 562 639**	**13 608 233**

Notes presented on pages 12 – 155 are an integral part of the Financial Statements.

Statement of cash flows (cont.)

Investing activities	Note	For the year ended 31 December 2015	For the year ended 31 December 2014
Proceeds from sale of investment securities		16 258 256	1 429 174
Proceeds from sale of property, plant and equipment and intangible fixed assets		7 427	2 133
Purchase of investment securities		-7 447 638	-12 157 657
Purchase of investments in subsidiaries		-7 500	-380 550
Purchase of property, plant and equipment and intangible fixed assets		-68 890	-84 075
Net cash flow from investing activities		**8 741 655**	**-11 190 975**
Financing activities			
Inflows from subordinated liabilities and long-term bank loans		2 782 633	1 044 347
Outflows from repayment of subordinated liabilities and long-term bank loans		-2 943 394	-3 854 408
Inflows from issued debt securities		0	500 000
Outflows from payment of interest on debt securities issued		-15 890	0
Inflows from shares issue		0	122 996
Net cash flow from financing activities		**-176 651**	**-2 187 065**
Net increase in cash and cash equivalents		**2 365**	**230 193**
Cash and cash equivalents at the beginning of the year	35	2 787 621	2 557 428
Cash and cash equivalents at the end of the year	35	**2 789 986**	**2 787 621**

Notes presented on pages 12 – 155 are an integral part of the Financial Statements.

Notes to the financial statements

1. General information

The financial statements of Raiffeisen Bank Polska S.A. have been prepared for the period from 1 January 2015 to 31 December 2015.

The financial statements have been prepared by **Raiffeisen Bank Polska S.A.** with its registered office in Warsaw, 00-549, ul. Piękna 20, registered in the National Court Register as a joint-stock company under the reference number KRS 0000014540.

The Bank has been established for an indefinite period of time.

The Bank operates in retail banking, corporate banking and investment banking in Poland and employed 5 395 people as at the end of 2015 and 5 569 people as at the end of 2014.

These separate financial statements should be read in conjunction with the consolidated financial statements of the Bank for 2015 in order to obtain complete information on the financial standing, results and cash flows of the Bank as a whole.

The Bank's Management Board approved these financial statements on 8 March 2016.

As at 31 December 2015 the Bank's Management Board consisted of:

Piotr Czarnecki	– President of the Management Board
Maciej Bardan	– First Vice-President of the Management Board
Jan Czeremcha	– Vice-President of the Management Board
Ryszard Drużyński	– Vice-President of the Management Board
Łukasz Januszewski	– Member of the Management Board
Piotr Konieczny	– Member of the Management Board
Marek Patuła	– Member of the Management Board

Notes to the financial statements (cont.)

As at 31 December 2015, the Bank's Supervisory Board consisted of:

Karl Sevelda	– Chairman of the Supervisory Board
Martin Grüll	– Deputy Chairman of the Supervisory Board
Klemens Breuer	– Member of the Supervisory Board
Władysław Gołębiewski	– Member of the Supervisory Board
Andreas Gschwenter	– Member of the Supervisory Board
Peter Lennkh	– Member of the Supervisory Board
Selcuk Sari	– Member of the Supervisory Board
Herbert Stepic	– Member of the Supervisory Board
Johann Strobl	– Member of the Supervisory Board

Changes in the Supervisory Board in the year ended 31 December 2015:

- on 31 March 2015 Aris Bogdaneris resigned from the position of the Supervisory Board Member,

- on 8 September 2015 Andreas Gschwenter was appointed for the position of the Supervisory Board Member of Raiffeisen Bank Polska S.A.

Notes to the financial statements (cont.)

2. Significant accounting policies

2.1. Basis of preparation of the financial statements

The financial statements of the Bank have been prepared for the period from 1 January 2015 to 31 December 2015. Comparative figures have been presented for the period from 1 January 2014 to 31 December 2014. The financial statements have been prepared in Polish zloty (PLN), and all amounts are presented in PLN thousand, unless indicated otherwise.

The financial statements have been prepared on a going concern basis using the assumption that the Bank will continue its business operations substantially unchanged in scope for a period of at least one year from the reporting date.

The financial statements of the Bank consider the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations ("IFRS EU"). Changes in published standards and interpretations, which became effective from 1 January 2014 and their impact on the financial statements of the Bank have been presented in Note 2.25.1. to the financial statements.

The financial statements do not take into consideration changes in interpretations and amendments to Standards, pending approval by the European Union or approved by the European Union but came into force or shall come into force after the balance sheet date (Note 2.25.2. to the financial statements).

During the period covered by the financial statements the Bank did not introduce significant changes in the accounting policy concerning valuation of assets and liabilities and profit measurement in comparison with previous period.

The financial statements of the Bank have been prepared based on the following valuation methods:

- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets designated upon initial recognition as at fair value through profit or loss and available-for-sale financial assets, except for those for which the fair value cannot be reliably measured,
- at amortized cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost for non-financial assets and liabilities,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

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Notes to the financial statements (cont.)

2.2. Statement of compliance

The annual financial statements ('financial statements') of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and respective law regulations.

2.3. Items in foreign currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in Polish zlotys (PLN) which is the functional currency.

Foreign currency transactions are translated into the functional currency using the current exchange rates from the date of the transaction. Foreign currency cash items presented in the statement of financial position are translated into the functional currency at the current exchange rate as at the balance sheet date (i.e. the average exchange rate published by the National Bank of Poland valid at the end of the reporting period).

All foreign currency translation differences, including gains and losses on the settlement of transactions are recognized in the profit or loss statement, under "Net income from financial instruments measured at fair value and net foreign exchange result", except for foreign exchange translation differences arising from available-for-sale financial assets which are recognized in other comprehensive income.

2.4. Determining the financial result

2.4.1. Interest income and expense

Bank recognizes interest income and expense arising from financial assets if it is probable that future economic benefit will flow to the Bank and the amount can be reliably measured.

Interest income and expense arising from financial instruments measured at amortized cost using the effective interest rate method, financial assets measured at fair value through profit or loss and assets available for sale are recognized in profit or loss statement. Interest income and expense also include interest related to derivatives that are designated as hedging items in hedge accounting applied by the Bank.

The effective interest rate method is a method for calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts to the net carrying amount of the given financial asset or financial liability. In calculating the effective interest rate cash flows are estimated in consideration of the contractual terms of the given financial instrument; however, without

Notes to the financial statements (cont.)

accounting for the potential future losses. The calculation includes all interest, commission and fees paid or received between the parties of the contract and all other premiums or discounts.

Fees and commissions arising from loans and advances without defined future cash flows or without defined interest rate change schedule for which calculation of the effective interest rate is impossible are recognized on straight-line basis.

For impaired financial instruments interest are accrued based on the carrying value (i.e. the value less impairment amount) using the interest rate used to discount cash flows for the impairment valuation.

2.4.2. Fee and commission income and expense

Fees and commissions directly related to the recognition of financial assets of liabilities are disclosed in accordance with Note 2.4.1 to the financial statement.

Other fees and commissions are recognized either on straight-line or up-front basis.

Fees and commissions arising from received or granted guarantees and letters of credit are recognized on a straight-line basis over the whole product life.

Commissions related to rendering financial services e.g. commission for money transfers, cash transactions, fees related to handling cash, are recognized in the profit or loss statement as one-off when the service is provided.

A loan syndication fee for syndicates arranged by Bank are recognized when the transaction takes place provided that Bank has no further involvement or retains part of the loan at the same effective interest rate for comparable risk as the other participants.

2.4.2.1. Fee and commission income and expense regarding insurance

Income from bancassurance

The Bank generates revenues from the „bancassurance", i.e. selling of insurance products through the Bank's distribution channels. In order to reflect the economic substance and the proper revenue and expense recognition regarding offered insurance products, the Bank has adopted separate rules for the presentation and recognition of bancassurance fees depending on whether there is a link between insurance product and financial instrument offered to the same client or not. If two or more transactions are linked, the criteria for revenue recognition are applied jointly to these transactions.

There is a direct link between insurance product and financial instrument when at least one of two conditions is met:

1) a financial instrument is always offered by the Bank with an insurance product,

Notes to the financial statements (cont.)

2) an insurance product is offered by the Bank only with a financial instrument, i.e. it is not possible to purchase an insurance product in the Bank, which is identical regarding its legal form, economic conditions and substance, without purchase of the product combined with a financial instrument.

If none of above mentioned conditions are met, further analysis is performed regarding connections between selling of financial instrument and insurance based on economic substance analysis, including criteria such as:

a) the level of combined product sales, i.e. percentage of financial instruments with insurance in all agreements concerning financial instruments in the Bank's portfolio,

b) average effective annual interest rate for specific financial instruments in the Bank's portfolio divided into instruments with insurance (by financial instruments according to the Bank's product offer, insurance product and insurance groups) and with no insurance (by financial instruments according to the Bank's product offer),

c) the ability to join the insurance cover without financial instrument,

d) if there is no requirement of the Bank for a client to conclude an insurance agreement with purchasing a financial instrument – the number of insurance agreements for which the terms and the rules are similar and which were concluded in other insurance companies than the company which products are offered by the Bank together with financial instrument,

e) the number of resignations and returned commissions – divided into financial instruments according to the Bank's product offer, insurance product and insurance groups,

f) the scope of activities performed for the insurer during the insurance agreement term.

The analysis of the links between insurance product and financial instrument includes also the financial instruments, which are not offered together with an insurance agreement.

The analysis of the links between the transactions concerning selling of insurance products and financial instruments is performed every time when a new insurance product is included in the Bank's offer. It is also verified and updated annually for the entire product portfolio to confirm the economic substance of these products and related transactions.

Insurance products not linked to financial instruments

The revenues from insurance products with no link to credit products offered by the Bank are recognized in accordance with the economic substance over the legal form principle and with the income/cost matching principle. Concerning selling of insurance products, when the Bank is only an insurance agent and is not obligated to provide further services or to perform activities for the insurer after selling the insurance

Notes to the financial statements (cont.)

product, the revenues from the sale of insurance products are recognized on the day of commencement or renewal of the insurance policy.

If the sale of insurance products with no link involves a commitment of the Bank to provide additional services, other than concluding an insurance agreement, the Bank recognizes revenues based on the stage of completing the services and as a result the part of the remuneration is deferred and settled over the time, when the Bank is obligated to provide services arising from the offered insurance product. This period is highly correlated with the period when the Bank is exposed to the risk of returning remuneration in case of client's resignation.

In relation to some products clients retain the right to cancel the insurance cover and to reclaim the overpaid premium at any time. For such products the Bank verifies, if the amount of recognized remuneration can be estimated reliably and the economic benefits from the transaction are probable, and performs a reliable estimate of the provision for refunds, which means the amount by which the remuneration should be decreased to reflect the reasonably reliably revenue.

Provision estimate for refunds is based on an analysis of historical information about the real returns in the past and predictions as to the trend of returns in the future.

Insurance products linked to financial instruments

Fees earned from sales of insurance products linked to financial instruments are settled according to so called "relative fair value method". Relative fair value method consists of proportional allocation of income from total loan transaction into the following elements: loan element, element of insurance intermediary service, element of provision for remuneration returns and element referring to the other activities in favor of insurer in the period of insurance policy.

Once a year, on the balance sheet date, the Bank verifies established input parameters and key assumptions in the bancassurance model (excluding provisions for returns, which are estimated every half a year). Additionally, the Bank assesses on each balance sheet date whether the existing policy for recognizing revenues and expenses concerning bancassurance corresponds to the economic substance of these commissions, and whether there is a better method of their recognition.

Commissions from insurance products linked to financial instruments (loan element) are settled using effective interest rate method throughout financial instrument period. Revenues and expenses of this type are presented respectively in interest income or expenses. Intermediary service element is recognized upfront in commission income. The element concerning other activities in favor of insurer is settled using straight-line method during the period of insurance protection.

Notes to the financial statements (cont.)

2.4.3. Net income from financial instruments measured at fair value and from foreign exchange result

Net income from financial assets measured at fair value through profit or loss as well as net foreign exchange results includes gains and losses arising from the sale or change in the fair value of financial instruments designated upon initial recognition as at fair value through profit or loss, and gains and losses on the sale and change in the fair value of instruments held for trading.

This result includes realized and unrealized gains/losses on foreign exchange derivatives, interest rate derivatives, debt instruments and equity instruments, as well as the gain/loss on hedging instruments.

The result on hedging instruments includes the offsetting effects of changes in the fair value of the hedging instrument and the hedged item which have an impact on the profit or loss statement, i.e. the ineffective portion of the hedge.

Net foreign exchange results comprise the positive and negative foreign currency translation differences, both realized and unrealized, arising from revaluation of assets and liabilities denominated in foreign currencies and gains / (losses) realized on spot transactions. Revaluation is performed on a daily basis using the average exchange rate announced by the NBP on the balance sheet date (in accordance with the policies described in Note 2.3 to the financial statements).

Net foreign exchange result also includes the foreign exchange component of the fair value measurement of derivative instruments (FX forward, FX swap, CIRS – currency interest rate swap and currency options).

2.4.4. Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items

Net provisioning for impairment losses on financial instruments and provisions for off-balance sheet exposures is recorded as a result of impairment recognition of financial assets, mainly from loan exposures to banks and clients impairment recognition of amounts due from banks, loans and advances to customers and valuation of off-balance sheet exposures (see Note 2.8 to the financial statements) and proceeds from sale of Bank's receivables.

2.4.5. Other operating income and expenses

Other operating income comprises mainly amounts received from sales of services unrelated to the Bank's core operations of the Bank's as well as result on the sale, disposal or impairment of non-current assets (including assets acquired for debt) and reversal of impairment of such items, release of other provisions and revenue from debt collection.

Notes to the financial statements (cont.)

Other operating expenses comprise mainly collection costs, expenses resulting from incurring a loss on sale or disposal of non-current assets (including assets acquired for debt) and of intangible assets, costs relating to penalties, fines and compensations as well as costs of creating other provisions.

2.4.6. Other profit / (loss) components

2.4.6.1. Employee benefits

Short-term employee benefits include: remuneration, bonuses, paid holiday leave and social insurance contributions, and are recognized as an expense upon being incurred. The Bank calculates provision for unused holiday leave. These provisions are presented in "Provisions".

2.4.6.2. Dividend income

Dividend income is recognized in the profit or loss statement on the ex-dividend date.

2.5. Presentation and valuation of financial assets and liabilities

All financial instruments are recognized using settlement date accounting.

Offsetting of financial assets and liabilities is performed when the Bank has a valid and legally enforceable right to set-off that is not contingent on a future event. Additional requirement is that the Bank and its counterparties have intention to compensate or to process receivables and payables in a single settlement process or cycle with total elimination or significant decrease of credit or liquidity risk (refer to Note 38 to the financial statements).

Long-term financial assets and liabilities consist of financial assets and liabilities with maturities exceeding 12 months from the balance sheet date.

2.6. Financial assets

The Bank classifies its financial assets into the following categories: financial assets measured at fair value through profit or loss, assets available for sale, held to maturity investments, and loans and other receivables.

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

This category comprises three sub-categories: financial assets held for trading, financial instruments designated upon initial recognition as at fair value through profit or loss and derivative financial instruments.

Financial assets held for trading comprise financial assets purchased for the purpose of selling them in a near term, financial assets constituting part of the portfolio of specific financial instruments managed jointly

Notes to the financial statements (cont.)

and for which there is evidence of a recent actual pattern of short-term profit-taking and derivative financial instruments which are not financial guarantee contracts or hedging instruments.

Financial instruments are designated upon initial recognition as at fair value through profit or loss only if:

- applying such a qualification eliminates or significantly reduces measurement or recognition inconsistencies of related gain/losses (the accounting mismatch);
- a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management policies or investment strategy and in accordance with the adopted internal reporting system on the portfolio condition;
- a financial asset which is recognized jointly includes one or more embedded derivatives and the embedded derivative does not significantly change the cash flows resulting from the underlying contract, and its separation is not allowed.

Financial instruments designated upon initial recognition as at fair value through profit or loss as well as after initial recognition are measured at fair value. The effects of the measurement and exchange rates which are connected to this measurement are recognized in the profit or loss statement, in "Net income from financial instruments measured at fair value and net foreign exchange result".

A financial asset is removed from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership.

2.6.2. Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as:

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

Financial assets classified as available for sale are measured at fair value apart from those assets where the fair value cannot be reliably measured, which are presented at purchase price, decreased with impairment allowances. Effects of changes in fair value, excluding impairment allowances, are recognized in other comprehensive income until the assets matures or is otherwise disposed of. Accumulated gain / loss is then transferred to profit or loss statement.

Notes to the financial statements (cont.)

2.6.3. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity and which do not meet the definition of loans and receivables.

Due to the Bank's policy and IFRS EU requirements, which does not allow selling financial instruments classified as held to maturity, there is no possibility to infect the held to maturity financial asset portfolio as a result of selling a significant portion of assets classified to this portfolio. However, should the Bank sell such assets, then all assets from the respective category would be reclassified to available for sale financial assets and for the following two consecutive financial years the Bank is not allowed to classify any financial assets as held to maturity.

Held to maturity financial assets are recognized in the statement of financial position as at the date of settlement of the purchase transaction of the asset. Financial assets are initially recognized at fair value adjusted for transaction costs directly attributable to the purchase or issuance of the given asset.

Upon initial recognition, the Bank measures the financial assets at amortized cost using the effective interest rate, taking into account impairment of the assets. The effects of the measurement are recognized in the profit or loss statement.

A financial asset is derecognized from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership.

2.6.4. Loans and receivables

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

- financial assets which the Bank intends to sell immediately or in the near term (financing granted by the Bank to a customer for the purpose of generating short-term gains; classified as held for trading) and those which the group classified as financial instruments designated upon initial recognition as at fair value through profit or loss;
- financial assets designated by the Bank as available for sale upon initial recognition; or
- assets in respect of which the holder may not recover substantially the whole amount of the initial investment for a reason other than credit deterioration (classified as available for sale).

Loans and advances to other banks and customers, including purchased receivables and investments in debt securities not quoted on an active market are part of the loans and advances category.

Notes to the financial statements (cont.)

Loans and advances are recognized when the cash is disbursed to the debtor.

Upon initial recognition, the Bank measures the financial assets at amortized cost using the effective interest rate, taking into account impairment, and the effects of the measurement are recognized in the profit or loss statement.

A financial asset is derecognized from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers the contractual rights to receive cash flows from the asset and transfers substantially all the risks and rewards of ownership, and also when the Bank does not expect any further cash flows from the financial asset.

2.7. Reclassification of financial assets

The Bank may reclassify available for sale financial assets to the loans and advances category if the given asset meets the definition of loans and receivables, and the Bank has the intention and ability to hold the asset during the foreseeable future or until its maturity. The Bank may also reclassify available for sale financial assets to the category of financial assets held to maturity if the change in intention or ability occurred or two consecutive financial years have passed, as discussed in Note 2.6.3 to the financial statements.

In case of reclassifying an available for sale financial asset with a specified maturity date, all gains and losses related to the asset which had been recognized in other comprehensive income are amortized and recognized in the profit or loss statement over the remaining life of the held to maturity investment, using the effective interest method. All differences between the new amortized cost and the maturity amount are amortized over the remaining life of the financial asset using the effective interest method, similarly as when amortizing a premium or discount.

The Bank may reclassify financial assets measured at fair value through profit or loss if exceptional events occur.

A financial asset is reclassified in its fair value as at the reclassification date. Gains or losses which had been recognized in the profit or loss statement until reclassification are not reversed. As at the reclassification date, the fair value of financial assets is deemed to be its new cost or new amortized cost respectively.

2.8. Impairment of financial assets

At each balance sheet date, the Bank assesses whether there are objective impairment triggers of a financial asset or group of financial assets.

Impairment of a financial asset or group of financial assets can be recognized only if there is objective evidence of impairment as a result of an event or events that occurred after the initial recognition of the

Notes to the financial statements (cont.)

given asset ("loss event") and if the event (or events) affects the future cash flows attributable to the asset or the group of assets that can be reliably estimated.

It may not be possible to identify a single event causing impairment – in such cases impairment is determined by the accumulated effect of several events. Losses expected as a result of future events, no matter how likely, are not recognized.

Based on the requirements of IAS 39 "Financial instruments: Recognition and Measurement requirements and recommendations" included in Recommendation R of Polish Financial Supervision Authority, the Bank defined the following loss events catalogue, which reflects the operating profile of the Bank.

For retail portfolio the Bank has defined the following impairment triggers:

- delays in payment over 90 days,
- fraud or attempt of fraud committed by the borrower,
- death of the borrower,
- termination of the loan agreement by the Bank,
- questioning of the credit exposure by the counterparty in court,
- debt enforcement proceedings being initiated against the borrower,
- significant deterioration of scoring assessment,
- restructurization of exposure after 90 days past due,
- significant financial difficulties of the borrower,
- limit blockage for renewable products.

For the corporate loans portfolio, the Bank identifies impairment triggers based on the following criteria:

- significant financial difficulties of the client based on negative assessment of client's financial situation,
- failing to meet terms of the agreement,
- changes in the agreement with concession towards clients, due to economic or legal reasons resulting from client's financial difficulties, concession which in other case would not be granted. As concession is treated each change in agreement with client facing financial difficulties,
- high probability of bankruptcy or other financial reorganization of the client,
- no active market for particular balance sheet exposure due to client's financial difficulties,
- information about opened bankruptcy or liquidation processes,

Notes to the financial statements (cont.)

- agreement termination,
- significant decrease of rating analysis,
- questioning of the balance sheet exposure by the client in court,
- Bank's request to initiate enforcement proceedings towards client,
- unknown client's place of residence or assets
- decrease of the client's rating by known and commonly accepted external agency assessing credibility (rating agency),
- there are macroeconomic signals negatively impacting operating risk of the client,
- there are other negative news about client, other signals, which could negatively influence operating risk of the client,
- significant change in value or quality of significant collateral,
- decrease in cash turnover of accounts in Bank,
- for Financial Institutions – loss of license,
- for governments and central banks – payment moratorium.

Details of the impairment triggers are included in Bank's internal regulations.

The process of impairment triggers identification for corporate portfolio is supported by the early warning system implemented by the Bank.

The impairment assessment for financial assets is performed under the individual and group analysis. The individual analysis is applicable for individually significant assets according to segmentation criteria adopted by the Bank and the size of the exposure to the client. The group analysis includes types of exposures:

- exposures for which no impairment triggers have been identified – exposures are assessed in group analysis process to estimate provision for incurred but not reported losses (IBNR model),
- individually insignificant exposures for which impairment triggers have been identified.
- the exposures for which impairment has not been identified after individual analysis.

Notes to the financial statements (cont.)

2.8.1. Assets measured at amortized cost

If there is objective evidence of impairment of loans and receivables or financial assets held to maturity measured at amortized cost, the impairment loss is calculated as a difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding the non-incurred future loan losses). As a rule the initial effective interest rate is used for discounting expected cash flow.

The calculation of current value of estimated future cash flows relating to a secured financial asset includes the cash flows from acquired collateral less the costs of its acquisition and sale, regardless of whether the repossession of the collateral is probable or not.

After calculating and determining the amount of the impairment loss, the carrying amount of the asset is reduced by the impairment allowance, which is recognized in the profit or loss statement.

Impairment losses are recorded in separate accounts. For balance sheet purposes and in order to determine the current book value of a given financial asset they are presented together with the financial assets which have been impaired.

If in a subsequent period the amount of the impairment loss decreases, due to an event occurring after the impairment was recognized (e.g. improvement of the creditworthiness of the debtor), the previously recognized impairment loss is reversed and the effects of the reversal are recognized in the profit or loss statement. The carrying amount of the asset determined as a result of the reversal of an impairment allowance shall not exceed the carrying amount which would be determined according to amortized cost if the impairment allowance has not been recorded.

Loans and advances which are uncollectable, after limitation period or for which Bank decided to stop further collection, are subject to write off against the impairment allowance. Subsequent recoveries of amounts previously written off are presented in the profit or loss statement, in other operating income.

2.8.1.1. Individual impairment assessment

a) Non-retail exposures

Impairment triggers for individually significant credit exposures are identified in the standard process of loan portfolio monitoring regarding the financial situation of the client and in the process of restructuring credit exposures arising from client's financial difficulties.

In case of indentifying impairment triggers, the individual credit allowance calculation includes comparing the carrying amount of the analyzed credit exposure with the expected cash flows discounted to the present value using the original effective interest rate of the contract.

Notes to the financial statements (cont.)

The method of estimating future cash flows is based on defining the value of expected cash flows resulting from:

- the voluntary repayment made by the borrower,
- realization of collateral.

The recovery is determined judgmentally, including collection scenarios defined by the Bank and the assumptions related to the results of the borrower's financial situation assessment.

If the total discounted value of expected cash flows from the voluntary repayments made by the client and from the realization of collateral is lower than the carrying amount of the credit exposure, the impairment is recognized and the credit allowance is booked.

If during individual analysis the Bank does not identify any objective impairment triggers for an individually assessed financial assets' component or impairment triggers were identified, but based on individual assessment impairment loss was not recognized, the component is included in the group of financial assets, which are the subjects of collective impairment analysis. If the impairment is recognized for the assets' component analyzed individually, the component is not included in the collective analysis.

b) Retail exposures

Identification of impairment triggers for individually significant exposures is performed on a customer level throughout periodical analysis regarding these engagements.

In case of identification of the triggers, impairment allowance is determined through comparison of book value of the analyzed loan engagement with the expected value of future cash flows discounted to current value by initial effective interest rate of the contract.

Future cash flows from secured exposures are determined based on expected recoveries from the collaterals. In case of not-secured exposures the estimated recoveries from exposures are taken into account.

The impairment is recognized and the allowance is booked when the total discounted value of the expected cash flows is lower than the book value of the loan exposure.

If the impairment trigger for individually significant exposure was not recognized, it is included in the group of financial assets assessed with regard to impairment with group method.

2.8.1.2. Collective impairment assessment

In the collective approach the group of financial assets with similar credit risk characteristics are identified and collectively assessed for impairment.

Notes to the financial statements (cont.)

Allocation of financial assets into groups with similar credit risk characteristics is carried out according to the segmentation rules used by the Bank including: type of the product, type of the client, loan delinquency and other significant factors. Those characteristics are relevant to the estimation of future cash flows for defined groups of assets, because they indicate the debtors' ability to repay all of their liabilities according to the contractual terms concerning analyzed assets.

The Bank has separate group models for impairment assessment for exposures with no identified impairment triggers and for exposures with identified impairment triggers:

a) exposures for which no impairment triggers have been identified (IBNR)

As far as collective approach regarding exposures for which no impairment triggers have been identified is concerned, the amount of the impairment is calculated using parameters: PD (probability of default) and LGD (loss given default). For non-retail exposures Historical Default Rate (HDR) parameter is used instead of PD (historical indicators reflecting the percentage of events of failure to comply with obligations in a given time period).

The PD/HDR parameters are estimated using statistical methods based on historically observed (considering the most recent observation) percentage of impaired loans for groups with similar credit risk characteristics. For each group the PD parameter is calculated in the time horizon corresponding to the loss identification period (LIP).

In order to reflect the amount of loss at the moment of impairment identification, the Bank determines the LGD parameter for each exposure group.

The most important information on the key assumptions and methods of determining by the Bank the PD, LIP and LGD parameters are presented below:

- PD and LIP parameter – retail exposures:

The PD parameter estimation is performed using the latest available history at the time of estimation. The PD parameter is estimated as the average of six indicators reflecting percentage of exposures for which an impairment trigger occurs in the period corresponding to LIP (the average is weighted by the number of exposures from the date of observation). The PD parameters are updated monthly.

The LIP parameter for retail exposures overdue but without impairment identified was established based on average time from the moment of overdue to identification of debtor's impairment. For other detail exposures it was established based on performed analysis aimed at defining moment of the occurrence of an event preceding a debtor's impairment. As at 31 December 2015 the LIP amounted to appropriately 9 months for mortgage loans and 6 months for other retail exposures.

- PD/HDR and LIP parameter – non-retail exposures:

Notes to the financial statements (cont.)

The HDR/PD parameters used in credit allowance calculation are determined based on the client's credit rating given in the credit assessment process. Credit rating results from the rating scale defined in a given rating system and is updated every quarter. The HDR/PD parameters assigned to each rating class are updated on an annual basis.

The LIP parameter for non-retail exposures equals 9 months and considers the period from occurrence of an event causing loss to giving status of impairment. For its definition the functioning processes concerning monitoring of loan exposures of non-retail clients (frequency of verification and reporting) as well as individual analysis performed on a sample of data regarding identification of real moment of an event occurrence were taken into account.

For exposures to corporate and financial institutions, the Bank determines the HDR parameter based on the results of statistical estimation.

For other non-retail exposures, including investment projects, insurance companies, public sector entities, due to the fact that there is no representative sample of clients for which historically an impairment has been recognized, the PD parameter is determined based on assumptions of internal rating systems and experts' expectations regarding the level of expected loss ratio.

- the LGD parameter – retail exposures:

The approach to assigning the LGD parameter differs for secured and unsecured exposures. The LGD parameter for secured exposures is designed to reflect loss due to the failure in recovering the full value of the collateral. For exposures secured by mortgage LGD parameter is calculated based on historical recovery rates (RR), based on actual data from sale process (straight from bailiffs or external real estate brokers) referred to the last used by the Bank (before sale date) collateral valuation.

As far as unsecured exposures are concerned, the LGD parameter is calculated based on historically observed recoveries, decreased by the costs incurred by the Bank to recover its receivables, including the percentage of clients who have settled the outstanding balance due to the Bank in a period of 12 months after the impairment identification. The estimation is performed on the portfolio of accounts for which the Bank has recognized the impairment. The criteria for defining homogeneous groups of clients are established at the level of the product portfolio and the number of months from the impairment identification for the specific account. As the result, for a given product segment the LGD parameter is a curve that increases over time from the moment of the impairment identification. As far as the credit portfolio for which no impairment triggers have been identified is concerned, there is a parameter assigned, which aggregates information about recoveries occurring over the entire recovery period. Moreover, the recoveries are adjusted with historically observed results of selling of impaired loans portfolio and the prices obtained by the Bank from these sales.

Notes to the financial statements (cont.)

- LGD parameter – non-retail exposures:

The LGD parameter is assigned at the level of single credit exposure based on the information about client's collateral value and category. Based on the information about collateral category, there is assigned a parameter reflecting expected cash flows from the collateral realization and the average recovery period. The above-mentioned parameters are determined judgmentally. Depending on the collateral level for individual exposure, the Bank identifies as a recovery source the cash flows from collateral and the voluntary repayment made by the client. In case of repayments from sources other than realization of the collaterals, the assumptions regarding expected recovery level and recovery period are defined judgmentally. The effective value of the LGD parameter assigned to the contract includes recovery from the collateral and other sources, as well as the time value of money.

b) Exposures for which an impairment triggers have been identified

As far as exposures for which impairment triggers have been identified are concerned, the impairment value is determined with a collective method using discounted expected future cash flows calculated based on historical loss or recoveries.

The approach to the impairment calculation differs for secured and unsecured exposures. For secured exposures the impairment is calculated as a difference between the carrying amount of the exposure and the discounted value of expected recovery from collateral (including the average recovery period and recovery rate for the specific collateral type, determined judgmentally). Moreover, it includes the probability of return to a regular debt service and the probability of returning to the impaired category after the "curing" was recognized.

As far as unsecured credit exposures are concerned, the assumptions used for calculation of the LGD parameter have been described in the section dedicated to IBNR model. However, for impaired exposures the estimated LGD parameter value is taken from the part of the LGD curve, which corresponds to individual information about the number of months from the impairment identification (months in default) for each account.

c) Exposures with identified triggers, without impairment

Non-retail exposures with identified impairment triggers for which impairment was not recognized at the moment of allowance estimation, are subject to group assessment. The basis of allowance for these exposures is the ratio of individual allowance coverage in the subsequent periods after impairment trigger recognition.

The calculation of the impairment allowance is verified as a part of the models' risk management process, because the models used by the Bank to calculate credit allowance and estimate risk parameters are subject to the risk of data quality, assumptions, methodology and administration. As a part of the models'

Notes to the financial statements (cont.)

risk management process the Bank performs an assessment of the models' administration process and validates historical parameters to minimize the risk of using incorrect parameters. The models' risk management process is supervised by the Models' Validation Committee.

2.8.2. Impairment of assets available for sale

If the decrease in fair value of available for sale assets is recognized in equity and there is objective evidence of its impairment, the accumulated losses which had previously been recognized directly in equity are transferred from equity and recognized in the profit or loss statement, even if the financial asset was not derecognized from the statement of financial position.

The accumulated losses transferred from equity to profit or loss are determined at the amount of the difference between the acquisition cost (net of all repayments of principal and depreciation) and the present fair value (net of all respective impairment losses which had been previously recognized in the profit or loss statement).

In respect of impairment of a financial asset classified as available for sale which had been previously remeasured to fair value and the positive revaluation was recognized in equity, the impairment loss first decreases equity and then – if the amount of previously recognized positive revaluation is insufficient to cover the impairment loss – the difference is recognized in the profit or loss statement, in '"Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items".

The impairment losses on equity instruments classified as available for sale financial assets are not reversed.

In respect of debt instruments, if in the following period the fair value of an available for sale debt instrument increases and the increase may be objectively attributed to an event which occurs after the impairment loss has been recognized in the profit or loss statement, the impairment loss has to be reversed and the amount of the reversal is recognized through the profit or loss.

2.9. Investments in subsidiaries

Subsidiaries are entities in respect of which the Bank possesses, directly or indirectly, more than 50% of votes at the General Shareholders Meeting or in case of which the Bank exercises control over its core business operations.

The Bank exercises control over investee only when at the same time the Bank:

- has power over the investee,
- from its involvement with the investee it is exposed to variable returns or has rights to these returns,
- has the ability to use its power over investee to affect its returns.

Notes to the financial statements (cont.)

In case of impairment of investment in subsidiaries the value of impairment allowance is presented in statement of profit or loss in position "Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items".

2.10. Repo and reverse repo transactions

Reverse repo and repo transactions are sale or purchase transactions of securities with a simultaneous promise of resale or repurchase at a given date and contractual price.

As at the moment of commencement, sell buy back or repo transactions are recognized in "Amounts due to banks and other monetary institutions" or "Amounts due to customers", depending on the counterparty of the transaction.

Buy sell back, or reverse repo transactions are presented in assets: as "Amounts due from banks" or "Loans and advances to customers", depending on the counterparty of the transaction.

Repo and reverse repo transactions are measured in the same method as other items presented in the given group of assets or liabilities. The difference between the sale and repurchase price is recognized over the period of the contract using the effective interest rate in interest income/expense respectively.

The Bank assesses the degree of risks and rewards related to the asset that remain within the Bank. Securities which are a part of repo or reverse repo transactions are not derecognized from the statement of financial position and are measured on the terms and conditions specified for particular securities portfolios.

2.11. Derivative financial instruments

2.11.1. Recognition and measurement

Derivative instruments are classified as held for trading and presented separately in the statement of financial position on the assets or liabilities side. Derivative instruments are measured at fair value excluding transaction costs which will be incurred on their sale. A derivative instrument is an asset if fair value is positive and a liability if fair value is negative.

The most appropriate basis for determining the fair value of a financial instrument upon initial recognition is its transaction price (i.e. the fair value of the payment made or received). In other situation, its fair value may be determined on the basis of a valuation model, the data for which was obtained from an active market. The techniques used are based, among other things, on models of discounted cash flows, profitability curves and option modeling.

Notes to the financial statements (cont.)

Changes in the fair value are recognized in the profit or loss statement – this amount is included in the net income from financial instruments measured at fair value (with the exception of a different manner of recognition in case of hedge accounting – see Note 2.11.3. to the financial statements).

Underlying amounts of derivative transactions are shown in off-balance sheet items from the transaction date till maturity.

2.11.2. Embedded derivatives

Embedded derivatives are components of a compound instrument which also includes the underlying contract that is not a derivative which causes part of the cash flows from the compound instrument change in a manner similar to the cash flows from the independent derivative, e.g. based on the interest rate, foreign exchange rate, credit or price index, price of the financial instrument, credit rating or another variable – on condition that the variable is not specific to any of the parties to the contract.

Whether a given contract includes an embedded derivative is determined upon the commencement of the contract. A second assessment is made only if there are changes to the contract which have a significant impact on the cash flows stated in the agreement.

A derivative is shown separately when the following terms and conditions are jointly met:

- the compound instrument is not measured at fair value through profit or loss;
- the economic character and risks of the embedded instrument are not closely related to the economic character and risks of the underlying contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative instrument.

Separated embedded instruments are measured according to the policies for derivative instruments, while the underlying contract – accounting principles applicable to specific agreements.

The measurement is presented in the statement of financial position in "Derivative financial instruments". Changes in the fair value of separated derivative instruments are recognized in the profit or loss statement in "Net income from financial instruments measured at fair value and net foreign exchange result".

In this category the Bank includes instruments embedded in structured instruments. In embedded instruments the Bank also includes its convertible bonds which are measured at cost taking into consideration potential impairment.

Notes to the financial statements (cont.)

2.11.3. Hedge accounting

The Bank may use derivative financial instruments to hedge against foreign exchange and interest rate risks resulting from its operating, financing and investing activities. For this purpose the Bank uses fair value hedges and cash flow hedges.

2.11.3.1. Criteria

The Bank may use hedge accounting when all the terms and conditions set out below are met:

- upon setting up a hedge, the hedge relationship was officially established and documented as well as the purpose of the entity's risk management and its hedging strategy were defined. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the manner in which the entity will assess the effectiveness of the hedging instrument in compensating the threat of changes to the fair value of the hedged item or the cash flows related to the hedged risk,
- a hedge is expected to be highly effective in compensating changes to the fair value or cash flows resulting from the hedged risk in accordance with the initially documented risk management strategy relating to the concrete hedge relationship,
- in case of cash flow hedges, the planned hedge transaction must be highly probable and must be exposed to changes in cash flows which as a result may have an impact on the profit or loss statement,
- the effectiveness of a hedge may be reliably assessed, i.e. the fair value or cash flows related to the hedged item and resulting from the hedged risk, and the fair value of the hedging instrument, may be reliably measured,
- the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is determined.

The Bank designates certain derivative instruments to the fair value or cash flow hedges. Upon setting up the hedge, a hedge relationship is officially established and the purpose of the Bank's risk management and its hedging strategy is determined. The documentation includes the identification of the hedging instrument, the hedged item or transaction and the nature of the hedged risk. Upon establishing the hedge and then on a current basis, the Bank also documents and assesses the effectiveness of the hedging instrument in compensating the threat of fair value changes of the hedged item.

Notes to the financial statements (cont.)

2.11.3.2. Fair value hedge

Fair value hedge constitutes hedges against the risk of changes to the fair values of recognized assets or liabilities, or a probable future commitment, or an isolated part of such an asset, a liability or probable future commitment which may be attributed to a specific risk, and which could have an impact on the profit or loss statement.

Gains or losses resulting from revaluation of the hedging instrument to its fair value (in respect of a hedging derivative instrument) or the foreign exchange component of its carrying amount (in respect of financial instruments other than derivatives) are presented in the profit or loss statement.

In respect of a hedged item which otherwise would be measured at amortized cost, gains and losses related to the hedged item and resulting from the hedged risk adjust the carrying amount of the item and are recognized in the profit or loss statement.

In respect of a hedged item constituting an available for sale financial asset, gains and losses resulting from the hedged risk are recognized in the profit or loss statement.

The difference between a change in the fair value of a hedging instrument and a change in the fair value of a hedged item, which presents the hedge ineffectiveness, is recognized in consolidated profit or loss statement in "Net income from financial instruments measured at fair value and net foreign exchange result".

2.11.3.3. Cash flow hedges

Cash flow hedges constitute hedges against the risk of cash flow fluctuations which may be attributed to a specific risk related to a recognized asset or liability or a highly probable planned transaction, and which could have an impact on the profit or loss statement.

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in other comprehensive income concerning the part including the effective part of the hedge. Amounts recognized directly in other comprehensive income are transferred to the profit or loss statement in the same period or periods in which the planned hedged transaction affects the profit or loss statement. The ineffective part of a hedge is recognized in the profit or loss statement, in "Net income from financial instruments measured at fair value and net foreign exchange result".

2.11.3.4. Discontinuing hedge accounting

The Bank discontinues hedge accounting, when:

- the hedging instrument expires, is sold, released or exercised – in such an instance accumulated gains or losses related to the cash flow hedging instrument which were recognized directly in other

Notes to the financial statements (cont.)

comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction is executed,

- the hedging instrument ceases to meet the criteria for hedge accounting – in such an instance accumulated gains or losses related to the cash flow hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in a separate item in other comprehensive income until the planned transaction is executed,
- the planned transaction is no longer considered probable (in respect of cash flow hedges) – in such case all the accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the profit or loss statement,
- the Bank invalidates a hedge relationship – in such case all the accumulated gains or losses related to the hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the profit or loss statement (unless the cash flow hedge was related to the realization of the planned transaction – in such case all the accumulated gains or losses related to the hedging instrument, which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in a separate item in other comprehensive income until the planned transaction is executed or until the planned transaction is no longer considered probable – in such case it is reclassified to the profit and loss statement).

If a replacement of one hedging instrument with another or extending the validity of a given instrument is a part of documented hedging strategy adopted by the entity, it is not considered as an expiry or release of a hedging instrument.

2.12. Financial liabilities

Financial liabilities are classified to categories: financial liabilities at fair value through financial result and other financial liabilities.

The Bank decides on classifying a financial liability at the moment of its initial recognition.

Derivative instruments are classified as financial liabilities at fair value through financial result. Derivative financial instruments are measured at fair value through financial result (unless they are designated as effective hedging instruments; see Note 2.11.3. to the financial statements).

Liabilities other than those measured at fair value through financial result including mainly amounts due to banks and customers and subordinated liabilities are classified to other financial liabilities. Financial

Notes to the financial statements (cont.)

liabilities are initially recognized at fair value plus or minus transaction costs related directly to the issuance of a given financial liability.

After initial recognition, other financial liabilities are subsequently measured at amortized cost, using the effective interest rate method.

2.13. Contingent liabilities

In the course of its operating activities, the Bank concludes transactions which at the moment of the conclusion are not recognized in the statement of financial position as assets or liabilities, but are contingent liabilities. A contingent liability is:

- a potential commitment which arises as a result of past events the existence of which will be confirmed only upon the occurrence of one or more uncertain future events which are not fully controlled by the Bank, or
- a current commitment which arises as a result of past events, but is not recognized in the statement of financial position because the expensing of cash or other assets to meet this commitment is improbable or the amount of the liability cannot be reliably assessed.

The Bank's key off-balance sheet liabilities constitute credit lines granted and granted financial guarantees which require that the provider makes specified payments to cover the loss incurred by the holder as a result of its defaulting on its payments in accordance with the terms and conditions of the debt instrument. Such financial guarantees are given by the Bank to other banks, financial institutions and other organizations on behalf of customers with the aim of securing loans, overdrafts and other banking financing products.

Financial guarantees are initially recognized at fair value on the date the guarantee is given. After initial recognition the Bank's liabilities resulting from such guarantees are measured at a value greater of: value of expected amount of financial means outflow and initial value adjusted, where applicable, for accumulated impairment.

For off-balance sheet liabilities exposed to the risk of the counterparty default the provisions are recognized. The provision for off-balance sheet liabilities is calculated based on the set limit and recoverable receivables understood as the present value of estimated future cash flows discounted using market interest rates. Future cash flows relating to off-balance sheet liabilities are calculated on the basis of the available limit and the term of maturity of the liability and the likelihood of outflow of funds from the Bank.

Within off-balance sheet exposures the Bank also presents non-financial guarantees, e.g. performance guarantees, tender guarantees, warranties and "standby" letter of credits.

Notes to the financial statements (cont.)

2.14. Method of determining the fair value and amortized cost

The Bank decides on the classification of a financial asset at the moment of its initial recognition. Upon initial recognition financial assets are measured at fair value as a general rule. After initial recognition financial assets measured at fair value through profit or loss and financial assets available for sale are, as a rule, measured by the Bank at fair value.

Market prices published by reliable sources such as Reuters, Bloomberg services, WSE, etc. are used to measure financial instruments at fair value. Financial instruments are measured with reference to the prices published in the above services on the BID page in respect of assets. The following are used to measure financial instruments:

- closing prices for regulated markets,
- fixing prices for the OTC market,
- prices given by intermediaries (Brokers) for OTC markets if there are no fixing prices.

If a reliable market price is not available for a financial instrument, the instrument is measured based on the theoretical price constructed on the basis of the profitability curve. The profitability curve is based on market quotations from the money market and swap contracts for particular currencies. The model is adjusted by credit risk.

The Bank does not measure equity instruments not quoted on an active market at fair value, because they cannot be reliably measured. These instruments are measured at cost net of impairment losses.

After initial recognition the Bank measures financial assets held to maturity, loans and receivables at amortized cost.

The amortized cost method is a method for determining the value of a financial instrument by deducting repayment of the principal amount from its value at initial recognition, adding or deducting accumulated amortization of all differences between the initial cost and the value of the instrument at maturity calculated using the effective interest method, and deducting impairment losses.

2.15. Derecognizing financial instruments from the statement of financial position

A financial asset is derecognized from the statement of financial position when the contractual rights to the cash flows from the financial asset expire, or when the Bank transfers the financial asset to another entity. The transfer takes place when the Bank transfers the contractual rights to receive cash flows from the asset or when the Bank retains the contractual rights to the cash flows from the financial asset, but accepts the contractual obligation to transfer those flows to an entity outside the Bank.

Notes to the financial statements (cont.)

When transferring a financial asset, the Bank assesses to what extent it retains the risks and rewards related to ownership. In this case:

- if the Bank transfers substantially all the risks and rewards of ownership, it eliminates the respective financial asset from its statement of financial position and at the same time recognizes separately as assets and liabilities all the rights and obligations retained by the Bank or those which arose during the transfer,
- if the Bank retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset in its statement of financial position,
- if the Bank does not transfer or retain substantially all the risks and rewards of ownership of the financial asset, it determines whether it retained control over the said financial asset. If the Bank has retained control, the financial asset is recognized in the statement of financial position up to the amount resulting from continued exposure, and if the control no longer exists the financial asset is derecognized from the statement of financial position and at the same time all rights and obligations retained by the Bank or arising during the transfer are separately recognized as assets or liabilities.

The Bank derecognizes a financial liability (or its part) from its statement of financial position when the liability specified in the contract has been settled, annulled, or has expired.

2.16. Intangible assets

Intangible assets are non-cash assets without a physical form, but identifiable and controlled by the Bank, leading to future inflows of economic rewards to the Bank directly related to the assets.

The Bank includes to intangible assets specifically:

- software licences,
- copyright laws to computer software or other work,
- cost of completed development projects,
- brand,
- customer relationship base,
- goodwill.

A component of intangible assets is initially recorded at historical cost – i.e. purchase price or cost of development.

The cost of purchase or production of computer software treated as intangible assets includes::

Notes to the financial statements (cont.)

- the purchase price of license or copyright laws due to the supplier net of rebates and discounts granted plus import customs and excise duty and non-recoverable VAT,
- all other directly attributable expenses or costs related to adapting acquired software for use or its proprietary development, in accordance with the purpose planned by the Bank, accrued as of the date of purchase or commencement of production to the date of commissioning for use.

Direct expenses or costs comprise specifically:

- costs of external consultations,
- costs of launching and testing the software,
- employee benefit expenses relating to the Bank's employees, in respect of the software purchased or manufactured under the given IT project, incurred exclusively in connection with its adaptation to the Bank's requirements or its proprietary development. These costs include short-term employee benefits (personnel costs) covering: wages and salaries, overtime, bonuses related to specific software, other employee benefits connected with the above.

Costs connected with current maintenance are recognized in profit and loss when incurred.

After initial recognition a component of intangible assets is presented at purchase price or production cost (historical cost) decreased by accumulated amortization and total amount of impairment (model of purchase price or development cost).

Assets are amortized during their useful life. Accumulated impairment losses result from impairment test conducted (in case significant evidence of impairment is discovered during periodic reviews of intangible assets).

Intangible assets with an undefined useful life are not amortized, they are subject to tests of potential impairment on each balance sheet date.

Tests for potential impairment are conducted as at each balance sheet date. If such evidence is identified, the recoverable value of the assets is determined. The recoverable amount is the higher of: the fair value less costs to sell and the value in use.

Impairment allowance is recognized in the profit or loss statement in "Other operating expenses" in the period to which it relates if the book value of an intangible asset exceeds its recoverable amount. Impairment allowance may be reversed but only up to the level of the book value which the asset would have (net of accumulated amortization), had the impairment allowance not been recorded.

Gains or losses on sales of intangible assets are presented in other operating income or expenses respectively.

Notes to the financial statements (cont.)

2.16.1. Costs of completed development projects

In the Bank's IT area of activity the costs related to:

- a given stage of research relating to a project or costs related to maintaining intangible assets are recognized in expenses as they are incurred.
- a stage of development works upon their completion, if they meet qualification criteria, are recognized as intangible assets and their amortization period is equal to the economic useful life of the undertaken development work.

In 2015 the Bank did not produce computer software for its own needs.

2.16.2. Other intangible assets

Intangible assets include mainly:

- purchased computer software licenses which are capitalized at their purchase price, i.e. the costs incurred on the purchase and adapting the software to be used in accordance with Bank requirements
- purchased copyright laws to implemented software
- licenses or copyright laws to other work than software

Amortization of intangible assets is calculated using the straight-line method to allocate the cost over the estimated useful life (usually 5 to 10 years).

2.17. Property, plant and equipment

Property, plant and equipment after initial recognition are presented at historical cost (purchase price or cost of production) net of accumulated depreciation and accumulated impairment allowances (model of purchase price or cost of production).

Assets are depreciated during their estimated useful life.

Accumulated impairment losses result from impairment test conducted (in case significant evidence of impairment is discovered during periodic reviews of property, plant and equipment).

Historical cost includes expenditure that is directly attributable to the acquisition and adapting for use, or production of the assets.

Leasehold improvements are costs incurred mainly to adapt the leased premises earmarked for servicing customers for Bank purposes.

Notes to the financial statements (cont.)

Subsequent expenses are included in the carrying amount of the property, plant and equipment item or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the purchase price or cost of production of the item can be measured reliably.

All other repairs and maintenance expenses are charged to the profit or loss statement during the financial period in which they are incurred.

Property, plant and equipment are depreciated on a straight-line basis to allocate the cost net of the residual value, if material and exists, evenly over the estimated useful life.

Depreciation rates applied as a rule to the basic property, plant and equipment items are as follows:

Leasehold improvements (in buildings or apartments)	12 years or in the term of the lease contract, depending which period is longer
Plant and machinery	3 – 12 years
Vehicles	10 years
Computers	3 – 8 years
Other tangible fixed assets	3 – 12 years

The adopted useful lives are reviewed at least once a year.

Reviews for potential impairment are conducted as at each balance sheet date. If evidence of impairment is present, the recoverable value of the assets is determined. The recoverable amount is the higher of: the fair value less costs to sell and the value in use.

Impairment allowance is recognized in the profit or loss statement in position "Other operating expenses" in the period to which it relates if the book value of a component asset exceeds its recoverable amount. An impairment allowance may be reversed only to the level at which the book value of an asset does not exceed the book value – net of depreciation – which would be determined should the impairment allowance have not been recorded.

Gains or losses on sales of fixed assets are presented in other operating income or expenses respectively.

2.18. Leases

The Bank is a party to lease contracts on the basis of which it accepts third party fixed assets for use over an agreed period. The Bank classifies lease contracts on the basis of the scope in which the risks and rewards from holding the leased asset are attributable to the lessor and the lessee.

Notes to the financial statements (cont.)

In respect of lease contracts on the basis of which substantially all the risks and rewards following from the possession of assets subject to the contract are transferred to the lessee, the lease is classified as a finance lease.

The leased asset is recognized in the Bank's assets as a fixed asset at the lower of: the fair value of the leased asset or the present value of the minimum lease payments determined as at the date of inception of the lease. At the same time, the Bank recognizes a liability in the same amount.

Lease payments are split between the reduction of the lease liability (in a manner enabling obtaining a fixed interest rate on the outstanding liability) and lease fees. Finance lease expenses are shown directly in the profit or loss statement. Fixed assets subject to finance lease contracts are depreciated in the same manner as fixed assets owned by the Bank. If there is no justified certainty that after the end of the finance lease contract ownership of the leased assets will be transferred, the assets are depreciated over the shorter of: the term of the lease and the estimated economic useful life of the asset.

In respect of lease contracts on the basis of which substantially all the risks and rewards from the possession of assets subject to the contract are not transferred, the lease is classified as an operating lease.

Lease payments made under operating leases (including lease installments) are recognized in the profit or loss statement on a straight-line basis over the term of the lease.

2.19. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include short-term liquid assets (up to three months from the reporting date) which are not exposed to the risk of significant value changes, such as:

- cash and balances with the central bank,
- cash in nostro accounts and interbank deposits maturing within three months.

Cash equivalents are used to pay short-term cash liabilities and are not held for the purpose of investing or other types of activity.

2.20. Provisions

The Bank creates provisions for future liabilities when the amount or date of their arising is not certain, but it is possible to reliably estimate the amount of the liability. These future liabilities are certain or highly probable and they result from past events which the Bank has to meet in accordance with a contractual or constructive obligation and which lead to using assets already possessed, or future assets of the Bank. If the effect of the time value of money is material, the amount of the provision is determined by discounting the forecast future cash flows to their present value, using the discount rate which reflects the current cost of

Notes to the financial statements (cont.)

money for the Bank (it may specifically be the risk-free interest rate), taking into consideration the potential risk related to the given obligation.

Provisions are recognized especially against the following:

- future employee commitments from employment contracts and provisions related to long-term employee benefits measured using actuarial methods,
- the effects of pending litigation,
- restructuring costs.

Provisions for future liabilities are charged against the profit or loss statement, against other operating expenses or general administrative expenses. Unused provisions decrease the Bank's operating expenses as of the date when the risk which justified their establishment was mitigated or ceased to exist.

Restructuring provisions are created when the following terms and conditions are met:

- the Bank has a detailed and formal restructuring plan (which at least specifies the area or part of the area to which the plan relates, base locations covered by the plan, place of employment, functions and estimated number of employees to receive severance payments, the amount of expenditure to be incurred and the period when the plan will be implemented), and
- the Bank started implementing the plan or announced the key elements of the plan to the parties involved (thus arousing expectations of the parties to which the plan relates as to the planned restructuring actions).

The Bank determines the amount of the restructuring costs on the basis of best available assessments of the direct expenditure resulting from restructuring and not related to the Bank's current operations.

2.21. Equity

Equity constitutes capital and reserves created in accordance with the binding legal regulations, i.e. the respective acts and the Memorandum of Association of entities in the Bank.

Share capital comprises currently registered share capital. The amount of share capital presented in the financial statements reflects the share capital of the Bank and is shown in an amount consistent with the Memorandum of Association and entry to the Court Register.

Equity also includes: retained earnings comprising at current year's undistributed profit and retained past results, and the following items:

Notes to the financial statements (cont.)

- supplementary capital from share premium and transfers from profit. At least 8% of the profit for a given financial year is transferred to supplementary capital, until it attains a level of at least one third of the share capital,
- general banking risk reserve,
- other reserves, created with transfers from profit and, in accordance with the Bank's Memorandum of Association, earmarked for offsetting balance sheet losses,
- the revaluation reserve from revaluation of financial instruments classified as available for sale,
- the effective portion of cash flow hedges.

2.22. Income tax expense

Corporate income tax covers current and deferred tax. The current income tax is recognized in the profit or loss statement.

Current tax is calculated based on the accounting profit before tax adjusted by revenues which in accordance with the tax regulations are not included in taxable income, taxable income which is not income for accounting purpose, costs not considered to be tax-deductible costs according to tax regulations and tax-deductible costs which are not considered to be costs for accounting purposes. Moreover, for tax purposes, the accounting profit before tax is adjusted by prior years' income and expenses realized for tax purposes in a given reporting period, and by income deductions.

In determining the deferred income tax the value of deferred income assets and provisions as at the balance sheet date of beginning and ending the reporting period is taken into account. The value of deferred income tax as at the balance sheet date is determined using the liability method, as a change in balance sheet items – deferred income tax assets and provisions.

Due to the fact that the moment of recognizing income as earned or cost as incurred differs under the accounting and tax regulations, the Bank records a deferred tax provision and asset. Deferred tax is recognized at the amount of the difference between the tax value of assets and liabilities and their carrying value for the purpose of financial reporting, using the appropriate tax rate.

Depending on the source of the temporary differences, deferred tax is recognized in the profit or loss statement or (in respect of the effects of measurement of financial assets recognized in other comprehensive income) in the statement of comprehensive income, under other comprehensive income. The Bank records a provision for deferred tax in respect of all positive temporary differences.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Notes to the financial statements (cont.)

Deferred income tax is measured using the tax rate, which according to expectations shall be applicable in the year in which the asset is realized or the provision released, determined on the basis of tax rates and tax regulations in force as at the end of the reporting period or such in respect of which it is certain at the balance sheet date that they will be binding in the future. Deferred tax assets and provisions are not discounted.

Deferred income tax assets and liabilities are offset when the Bank has a legally enforceable right to offset deferred and current tax receivables with respective liabilities and when the deferred income taxes relate to the tax payer and the same fiscal authority.

2.23. Other

The "Other assets" include mainly:

- prepaid costs relating to consecutive reporting periods;
- income receivable;
- repossessed assets,
- unsettled clients' transactions.

Prepaid costs are recognized at the moment of their payment to the counterparty and gradually transferred to the profit or loss statement on a straight line basis over the period to which the costs relate.

Assets repossessed for debts are measured at fair value.

The „Other liabilities" comprise mainly:

- unsettled clients' transactions;
- accruals;
- deferred income.

Unsettled clients' transaction comprise amounts due to banks which are not settled as at the balance sheet date. These settlements are made through the national clearing house – Krajowa Izba Rozliczeniowa (KIR).

Accruals constitute costs to be paid mainly in respect of internal operations, not documented by a purchase invoice. These costs relate to the current reporting period and are recognized in the books upon delivery of goods or services, i.e. arising of the liability. They are payable later, after the invoices from the suppliers are received.

Deferred income item consists mainly of commissions accounted for linearly and other income received in advance, which will be recognized in the profit and loss statement in future reporting periods.

Notes to the financial statements (cont.)

2.24. Business combination

Business combinations of entities, which are not under common control, are recognized applying the acquisition method. As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired and liabilities assumed. The identifiable assets acquired and liabilities assumed in a business combination are recognized at their fair values at the acquisition date.

The goodwill shall be recognized as of the acquisition date measured as the excess of the consideration transferred valued at acquisition-date fair value over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed valued at acquisition-date fair value.

If the net of the acquisition-date amounts of identifiable amounts of assets acquired and liabilities assumed valued at acquisition-date fair value exceed the consideration transferred valued at acquisition-date fair value, the difference is recognized directly in the profit or loss statement.

Notes to the financial statements (cont.)

2.25. New standards, interpretations and revisions to published standards

2.25.1. Standards and Interpretations which have been published and applied by the Bank as of 1 January 2015, to the extend relating to the Bank.

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRIC Interpretation 21 *Levies*	November 2013	Financial year starting on or after 17 June 2014	Yes	The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period. The IFRIC 21 did not have a material impact on the financial statements upon initial adoption.
Improvements to IFRS (2011-2013)	December 2013	Financial year starting on or after 1 January 2015	Yes	Yearly changes to IFRS 2011-2013 contain 4 modifications to standards, including consequential changes to other standards and interpretations. These changes did not expect to have a significant impact on the financial statements of the Bank.

Notes to the financial statements (cont.)

2.25.2. Standards and Interpretations which have been published but are not yet binding and have not been adopted early by the Bank

The following standards and interpretations have been issued by either the International Accounting Standards Committee or by the International Financial Reporting Interpretations Committee, but are not yet in force:

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 9 Financial instruments (2014)	July 2014	Financial year starting on or after 1 January 2018	No	The new standard replaces the guidance included in IAS 39 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets, including a model for calculating impairment. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables used to classify financial assets. Under the new standard, financial assets are to be classified on initial recognition into one of three categories: • financial assets measured at amortized cost; • financial assets measured at fair value through profit or loss; or • financial assets measured at fair value through other comprehensive income (OCI). A financial asset is classified as being subsequently measured at amortized cost if the following two conditions are met: • the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and • its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. Otherwise, e.g. in the case of equity instruments of other entities, a financial asset will be measured at fair value. Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, other than assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets – such remeasurement gains and losses are recognized in OCI.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				In addition, at initial recognition of an equity investment that is not held for trading, an entity may irrevocably elect to present all fair value changes from the investment in OCI. The election is available on an individual share-by-share basis. No amount recognised in OCI in relation to the above-described remeasurement is ever reclassified to profit or loss at a later date. The new standard retains almost all of the existing requirements in IAS 39 on the classification and measurement of financial liabilities and on derecognition of financial assets and financial liabilities. However, IFRS 9 requires that the portion of the gain or loss on a financial liability designated at initial recognition as fair value through profit or loss that is attributable to changes in its credit risk be presented in OCI, with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, or if the financial liability is a loan commitment or a financial guarantee contract, the entire fair value change is presented in profit or loss. In respect of the financial assets impairment requirements, IFRS 9 replaces the “incurred loss” impairment model in IAS 39 with an “expected credit loss” model. Under the new approach, which aims to address concerns about “too little, too late” provisioning for impairment losses, it will no longer be necessary for a loss event to occur before an impairment allowance is recognized. In short, the expected credit loss model uses a dual measurement approach, under which the loss allowance is measured as either: • 12-month expected credit losses, or • lifetime expected credit losses.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. If the credit risk of a financial asset has not increased significantly since initial recognition, the financial asset will attract a loss allowance equal to 12-month expected credit loss. If, however, its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses, thereby increasing the amount of impairment recognized. The standard contains a rebuttable presumption that the condition for recognizing lifetime expected credit losses is met when payments are more than 30 days past due. As at the date of preparation of the financial statements possible outcome of the first time application of the standard was not estimated by the Bank.
Amendments to IAS 19 *Employee Benefits* entitled *Defined Benefit Plans: Employee Contributions*	December 2013	Financial year starting on or after 1 February 2015	Yes	The Amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the Amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. It is expected that the Amendments, when initially applied, will not have any material impact on the Bank's financial statements. The Bank does not have any contributions to defined benefit plans.
Improvements to IFRS (2010-2012)	December 2013	Financial year starting on or after 1 February 2015	Yes	Yearly changes to IFRS 2010-2012 contain 8 modifications to 7 standards, including consequential changes to other standards and interpretations. Most of these changes are not expected to have a significant impact on the financial statements of the Bank.
IFRS 14 Regulatory deferral accounts	January 2014	Financial year starting on or after 1 January 2016	No	This interim standard: - permits first time adopters of IFRS to continue to use its previous GAAP to account for regulatory deferral account balances both on initial adoption of IFRS and in subsequent financial statements

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				- requires entities to present regulatory deferral account balances and movements therein as separate line items on the face of the financial statements - requires specific disclosures to identify clearly the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances in accordance with this interim Standard. Due to nature of Bank's activity IFRS 14 does not apply.
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 *Joint Arrangements*)	May 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments provide guidance on the accounting for the acquisition of an interest in a joint operation that constitutes a business. The acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 *Business Combinations*, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in IFRS 11. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. The Bank does not expect the Amendments to have significant impact on the financial statements.
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*)	May 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The Bank does not expect the Amendments to have significant impact on the financial statements.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 15 *Revenue from Contracts with Customers*	May 2014	Financial year starting on or after 1 January 2018	No	The Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Specifically, it replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under the new standard, entities will apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized: - Over time, in a manner that depicts the entity's performance; or - At a point in time, when control of the goods or services is transferred to the customer. Included in the Standard are new qualitative and quantitative disclosure requirements to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. As at the date of the financial statements reliable estimation of the standard impact was not prepared by the Banks.
Agriculture: Bearer Plants (Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*)	June 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. IAS 41 *Agriculture* currently requires all biological assets related to agricultural activity to be measured at fair value less cost to sell. Under the new requirements, bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16, because their operation is similar to that of manufacturing. Consequently, the Amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. Due to nature of the Bank's activity the above mentioned Amendments do not apply.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Equity Method in Separate Financial Statements (Amendments to IAS 27 *Separate Financial Statements)*	August 2014	Financial year starting on or after 1 January 2016	Yes	The Amendments introduce an option for the entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements, in addition to the existing cost and fair value options. The Bank does not expect that the above mentioned Amendments will have a significant impact on the financial statements.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates*)	September 2014	Financial year starting on or after 1 January 2016	No	The Amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. While IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture, IFRS 10 requires full profit or loss recognition on the loss of control of subsidiary. The Amendments require a full gain or loss to be recognised when the assets transferred meet the definition of a business under IFRS 3 *Business Combinations* (whether it is housed in a subsidiary or not). A partial gain or loss (only to the extent of unrelated investors' interests) shall be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The Bank does not expect the Amendments to have a material impact on its financial statements once applied.
Improvements to IFRS (2012-2014)	September 2014	Financial year starting on or after 1 January 2016	Yes	The *Improvements to IFRSs (2012-2014)* contains 4 Amendments to standards, with consequential Amendments to other standards and interpretations. The main changes were to:

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				· clarify that paragraphs 27-29 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (dealing with the accounting for assets that are no longer classified as held for sale) will also apply to assets that cease to be classified as held for distribution. This, however, will not apply if an entity reclassifies an asset (or disposal group) without any time lag from held for sale to held for distribution (or vice versa). Such changes in classification are considered a continuation of the original plan of disposal; · explain how an entity should apply the guidance in paragraph 42C of IFRS 7 *Financial Instruments: Disclosures* to a servicing contract to determine whether the contract represents 'continuing involvement' for the purposes of the disclosure requirements in paragraphs 42E-42H of IFRS 7; · clarify that the additional disclosures required by Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) are not specifically required for inclusion in condensed interim financial statements for all interim periods. However, they are required if the general requirements of IAS 34 *Interim Financial Reporting* require their inclusion; · amend IAS 19 *Employee Benefits* to clarify that the high-quality corporate bonds or government bonds used in determining the discount rate for post-employment benefit obligations should be issued in the same currency in which the benefits are to be paid. Consequently, the assessment of the depth of the market for high quality corporate bonds should be made at the currency level and not at the country level; clarify the meaning of the term 'elsewhere in the interim financial report' per IAS 34 and add to IAS 34 a requirement to include a cross-reference from the interim financial statements to the location of this information. The Bank does not expect the improvements to have a material impact on its financial statements once applied.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*)	December 2014	Financial year starting on or after 1 January 2016	No	The Amendments, related to financial reporting of investment entities, address the following matters: • Consolidation of intermediate investment entities Before the Amendments, it was unclear how to account for an investment entity subsidiary that provides investment-related services. As a result of the changes, intermediate investment entities are not permitted to be consolidated. The Amendments also clarify that entities conducting "investment-related services" are those whose main purpose and activities are to provide services that relate to the investment entity parent's activities. • Consolidated financial statements exemption for intermediate parents owned by investment entities Intermediate holding entities have a long-standing exemption from preparing consolidated financial statements when they are themselves consolidated by a higher-level parent (and when other relevant criteria are met). The Amendments make this exemption available to an intermediate held by an investment entity, even though the investment entity does not consolidate the intermediate. • Policy choice to equity account for interests in investment entities The Amendments provide an accounting policy choice to a non-investment entity in relation to its stake in an investment entity that it is required to equity account. The non-investment entity's equity accounting can either pick up the investment entity's fair value accounting for its subsidiaries or, alternatively, it can pick up figures as if the investment entity had consolidated all of its subsidiaries.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
				The Bank does not expect the Amendments to have a material impact on its financial statements once applied.
Disclosure initiative (Amendments to IAS 1 *Presentation of Financial Statements*)	December 2014	Financial year starting on or after 1 January 2016	Yes	Key clarifications resulting from the Amendments include the following: · An emphasis on materiality. Specific single disclosures that are not material do not have to be presented – even if they are a minimum requirement of a standard. · The order of notes to the financial statements is not prescribed. Instead, companies can choose their own order, and can also combine, for example, accounting policies with notes on related subjects. · It had been made explicit that companies: • should disaggregate line items in the statement of financial position and in the statement of profit or loss and other comprehensive income (OCI) if this provides helpful information to users; and • can aggregate line items in the statement of financial position if the line items specified by IAS 1 are immaterial. · Specific criteria are provided for presenting subtotals in the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI. The presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the standard's approach of splitting items that may, or that will never, be reclassified to profit or loss. It is expected that the Amendments, when initially applied, will not have a significant impact on the Bank's financial statements.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
IFRS 16 Leases	January 2016	Financial year starting on or after 1 January 2019	No	IFRS16 replaces IAS17 Leases and connected with this standard interpretations. In relation to lessees new Standard eliminates existing currently division for finance and operating leases. Accounting for operating leases in the statements of financial position would result in recognition of new asset – right to use leased item – and new liability – liability to pay for the leasing. Rights to use assets under leasing would be amortized and from liabilities interest accruals would be calculated. It would result in recognition of higher expenses in the initial phase of the leasing, even when parties agreed on constant yearly payments. Lessors accounting for leasing in majority of cases would not change as division for operating and finance leasing would be valid. At the initial application impact of the Standard would depend on specific facts and circumstances relating to leasing agreements conducted by the Bank. At the date of these financial statements presentation Bank is not able to assess impact of the Standard on the financial statements.
Recognition of deferred tax assets connected to unrealized losses (Changes to IAS 12 Income taxes)	January 2016	Financial year starting on or after 1 January 2017	No	Changes explain, among others, that unrealized changes connected with debt instruments recognized as fair value in financial statements, for which tax value is their initial cost, can result in recognition of negative temporary tax differences. The above described changes are not expected to have significant impact on Bank's financial statements.

Notes to the financial statements (cont.)

Standard/Interpretation	Issue or publication date	Date of coming into force	Endorsed by the European Union	Description of changes
Disclosure initiative (Changes to IAS 7 Statements of Cash flows)	January 2016	Financial year starting on or after 1 January 2017	No	Changes come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes resulting from cash flows and non-cash transactions. One of the ways to meet above requirements is to present opening and closing balances resulting from financing activities. The above described changes are not expected to have significant impact on Bank's financial statements.

In conclusion, the Management of the Bank does not expect that the introduction of these standards and interpretations to have any material impact on the Bank's use of accounting standards, with the exception of IFRS 9, IFRS 15 and IFRS 16 (impact of IFRS 9, IFRS 15 and IFRS 16 on the applied accounting policies of the Bank has not yet been evaluated). The Bank intends to use the dates set out in the relevant standards and interpretations (without early application), provided that they will be approved by the EU.

Notes to the financial statements (cont.)

3. Significant estimates

The preparation of financial statements in accordance with the IFRS EU requires the Management Board of the Bank to make judgments, estimates and assumptions which affect the adopted accounting policies and the amounts presented in the financial statements and in the additional notes and explanations, in particular the amounts which cannot be clearly established based on other sources. The estimates and assumptions are made as at the balance sheet date based on the historical data available, information on the situation at the moment of making the estimates and other factors considered appropriate in a given circumstances, including the expectations as to future events, which seem justified in a given situation. In spite of the fact that the estimates are based on the best knowledge concerning the circumstances and actions undertaken by the Bank, the actual results may differ from the estimates. The estimates and assumptions are subject to a regular review. Adjustments in estimates are recognized in the period in which the change of estimate was made, provided that the adjustment only relates to that period, or in the period in which the change was made and in future periods if the adjustment affects both the current and the future periods.

The main judgements, estimates and assumptions adopted by the Bank are described below.

3.1. Impairment of financial assets

The process of monitoring the risk of impairment of financial assets (mainly amounts due from loans and advances and off-balance sheet exposures) is aimed at identifying the impairment events which may occur in relation to the Bank's clients and to prevent from the deterioration of the quality of these assets, and also attempting to identify the impairment triggers and to properly reflect them in the Bank's books (see the impairment triggers of a financial assets or a group of financial assets listed in Note 2.8. to the financial statements Impairment of financial assets).

Monitoring the risk of impairment of financial assets includes: analyzing the economic and financial situation of the issuer or debtor, verification whether the loan covenants are not breached by the issuer or debtor (including the monitoring of loan repayment delays), analyzing the probability of bankruptcy or restructuring of the issuer or debtor and identifying fraud of assets by the debtor.

The impairment allowances in respect of loans, advances and other receivables takes into account the estimates related to the value of collateral.

The Bank performs these estimates as at the balance sheet date. The estimates include cash flows which may arise in connection with claiming collaterals, less costs related to claiming and selling such collaterals. As at the balance sheet date the Bank performed a review of the models in order to assure that they properly reflect the current market situation, including the current conditions of the market's liquidity and credit spreads.

Notes to the financial statements (cont.)

3.2. Impairment of the loan portfolio

The monitoring of customers in the corporate portfolio is performed based on periodic individual analysis of this portfolio exposures. An individual counterparty/borrower is treated as one exposure. Impairment allowances are estimated on a one-by-one basis. In calculating impairment allowances, the Bank uses assessments under which indicators of impairment areidentified, and estimates future cash flows discounted using the effective interest rate, taking into account of the estimated value of collateral. When estimating the impairment allowances, the Bank uses internal and external sources of information. The Bank applies the following, depending on the customer segment (corporate customers, SME, project financing, financial institutions, local and regional authorities, public sector entities, governments and central banks): the internal rating system of the Bank or values estimated based on the Bank's employees professional judgment.

The information on the sensitivity analysis in respect of impairment allowances for amounts due from customers with recognized impairment losses is presented in the table below. The estimate has been performed for the portfolio of loans and advances in which impairment allowance is recognized based on an individual analysis of future cash flows relating to repayment and recovery from collaterals. The base value of the allowances calculated under the individual assessment model for balance and off balance sheet exposures is PLN 726 885 thousand (PLN 832 204 thousand as at 31 December 2014), and the base value of discounted recoveries from collaterals and cash repayments is PLN 1 173 739 thousand (PLN 1 097 118 thousand as at 31 December 2014).

Estimated movement in the allowance for the portfolio of loans and advances analysed case by case based on future cash flows expected from repayment and recovery from collateral	No change in repayment	Repayment by customers up by 10%	Repayment by customers down by 10%
31 December 2015			
No change in inflows from collateral	726 885	713 877	744 179
Inflows from collateral up by 10%	700 527	687 565	
Inflows from collateral down by 10%	758 509		778 686
31 December 2014			
No change in inflows from collateral	832 204	815 699	854 797
Inflows from collateral up by 10%	794 368	778 180	
Inflows from collateral down by 10%	880 386		906 369

Estimation of impairment for retail clients not significant individually is performed by group method. Collectively assessed exposures are classified as impaired assets when the Bank identifies impairment triggers set for specified group of assets presented in Note 2.8.1.2. The impairment allowance is estimated by classifying the individual exposures into homogeneous groups based on the type of customer and type of

Notes to the financial statements (cont.)

product (credit card, overdraft, consumer loan, car loan, mortgage loan, micro loan) and the risk scale. The impairment allowance is calculated based on the allocation to the particular groups using the arithmetical model.

The exposures significant individually are subject to individual analysis in regard to identification of triggers and determination of impairment allowance.

If no impairment triggers have been identified on loan exposures, the exposures form the basis for calculating an allowance for losses incurred but not reported (IBNR) based on statistical models.

The methodology, statistical models and their assumptions are based on historical observations and professional judgments of the experts and are applied for the exposures with similar credit risk. The models and their assumptions are subject to periodic validation to minimize the differences between the estimated and actual loan losses.

3.3. Financial instruments valuation methods

The valuation of financial instruments at fair value for which there is an active market is performed based on the market value. When the value of the instrument is not directly available, a theoretical valuation based on the existing, approved by the Bank model can be made. In respect of instruments where the risk factor is the interest rate, the valuation takes into account the yield curve composed of interbank deposits market quotations, FRA rates, IRS quotes and swap points, as applicable to the instrument.

For instruments where the risk factor is the foreign exchange rate, the spot interbank rate is taken into account, while the options are measured on the basis of volatility.. All quotes included in the valuation models are retrieved from a centralized repository of market data loaded by the most liquid available quotes for various instruments.

Additionally, the valuation of derivatives includes counterparty risk factor, which estimation is based on an internal rating model of the Bank, including PD, LGD and exposure's tenor.

The valuation models are assessed and verified periodically by qualified independent employees, i.e. those who do not participate in front office activities. The Model Validation Committee also participates in the validation process.

3.4. Provisions calculation

Provisions for liabilities to employees related to employment comprise of provisions for actuarial benefits. The calculation of this provision was performed by an external independent actuary, who used the individual method, separately for each employee. The provisions were calculated as a sum of discounted future payments, for each of the currently employed and based on their remuneration, as at the day of calculation taking into consideration additional assumptions regarding staff turnover. A significant factor

Notes to the financial statements (cont.)

affecting the amount of the provision is the adopted discount rate which is based on the return on risk-free securities (Treasury bonds) denominated in the currency in which the employee benefits are paid out and the redemption date of which is similar to the estimated date of realization the liabilities in respect of employee benefits – mobility, salary increase rates, mortality. A change in the discount rate by +/- 0.5 p.p. would result in a decrease/increase of the provision of ca. PLN 264 ths and PLN 295 ths respectively (as at 31 December 2014 a decrease/increase in the provision of ca. PLN 1 664 ths and PLN 1 803 ths, respectively, including the "Raif'fajne Lata" program which in the IV quarter of 2015 the Management Board of the Bank decided to discontinue, details are presented in Note 28).

The Bank also books other provisions, including, mainly provisions for the litigation and claims, provisions for restructuring costs. The amount of the provision is estimated taking into account the potential risk related to a given liability based on the forecasted future cash flows. If the effect of the change in the time value of money is significant, these cash flows are discounted to present value using the discount rate reflecting the cost of money for the Bank. Provisions for restructuring costs are determined based on the best available estimates of direct outlays resulting from the restructuring.

3.5. Intangible assets with an indefinite useful life recognised as a result of a business combination with Polbank EFG S.A. – impairment test

As at 31 December 2015 Bank performed impairment test of the intangible assets recognized as a result of a business combination, i.e. the brand "Polbank", goodwill and customer relationships.

For the purpose of the impairment test the cash generating unit has been determined at the level of the retail segment of the Bank.

Key assumptions used in calculation of value in use

Value in use estimation is based mainly on the following variables:

- discount rate estimated on the basis of CAPM model,
- budget forecast accepted by the Management Board of the Bank,
- growth rate used in residual value estimation beyond the period of forecast,
- interest rate level.

The assumptions concerning growth rate depend on the growth of Polish as well as the global economy. The assumption in relation to discount rate depends on growth of financial markets and regulatory environment. Changes of the regulatory environment and higher volatility of financial markets could significantly affect the level of discount rates.

Notes to the financial statements (cont.)

Impairment test - goodwill

As at 31 December 2015 the value in use of the segment was established as the current value of future cash flows from further use of the asset which were assumed in Management Board's financial forecasts. Value in use estimation was based on the Dividend Discount Model, which is appropriate for banks and financial institutions.

The forecast period is 5 years and is based on assumptions which according to the Management Board reflect the future Bank's activities.

The discount rate was estimated at the level of 7.02% nominal. The Capital Asset Pricing Model, risk-free interest rate, β-indicator for the Banking sector and premium for the capital risk were used for the calculation..

The long-term cash flow growth rate after the forecast period was estimated at the level of 4.6% nominal, basing on the long-term forecasts of nominal GDP growth.

After the comparison of value in use of the goodwill and its book value the Bank has not identified any impairment.

Impairment test - brand "Polbank"

The value in use of the brand was established based on the relief from royalty method. This method assumes estimation of the hypothetical payment of royalty in a situation when the Bank would pay the brand owner for its use. When the Bank is the owner of the brand, there is no necessity to pay for royalty, what is a hypothetical saving for the Bank.

Cash flows from royalty payment were estimated based on a royalty payment rate, which according to the Management Board is appropriate for the entities in the banking sector, and also based on net income from sales of loans and deposits including credit risk and prepayment risk. Due to indefinite period of income generated by „Polbank" brand, the forecast period of future financial cash flows covers 10 years and is based on assumptions which according to the Management Board reflect the future Bank's activity.

For the calculation of the discount rate the Bank used the Capital Asset Pricing Model, risk-free interest rate, beta-coefficient for the banking sector and premium for the capital risk. The required return of equity was assumed at 7.02% nominal rate. In order to reflect the cash flows risk generated by the brand 1% margin was added to the nominal rate. The total discount rate was estimated at 8.02% nominal rate.

The nominal long-term cash flow growth rate after the forecast period was estimated at 4.6%, based on the long-term forecasts of nominal GDP growth.

As a result of the impairment test the Bank did not identify any impairment of the brand "Polbank".

Notes to the financial statements (cont.)

Impairment test – customer relationships

Starting from 2014 the Bank split the customer relationships into two separate intangible assets: customer relationships from granted loans (amortized using diminishing method over 10 years) and customer relationships from received deposits (amortized using diminishing method over 5 years). The value in use was estimated separately for both assets: client relationships from granted loans and received deposits. The estimation was based on forecast of net interest income or savings which will be generated by the Clients of Polbank EFG S.A. at acquisition date.

Discounted cash flows of net interest income or savings arising from difference between analyzed products and alternative products constitute value in use of customer relationships from granted loans and received deposits.

The Bank applied discount rate equal to interest rate of comparable products used in the analysis.

Estimated discounted cash flows of net interest income and additional savings were compared with book value of the asset. As a result of the impairment test the Bank did not identify impairment of the customer relationships.

3.6. Useful life and impairment of property, plant and equipment and other intangible assets

For the purpose of calculating the depreciation/amortization cost of property, plant and equipment and intangible assets their anticipated useful lives are estimated, which affect directly the relevant amortization rates. The adopted useful lives are verified at least once a year. The estimates of the useful lives of the individual property, plant and equipment and intangible asset categories and their verification are based on, among other things, the periods arising from contractual titles related to the period of use of an asset, anticipated wear and tear and utilization of an asset, obsolescence or limitations of use of an asset for technological, market, legal or other reasons.

In the year 2015 due to upgrades made in Bank's main system economic useful life was extended by an additional year (from 2024 till 2025).

Bank expects that brand "Polbank" will generate vast, certain and increasing demand for products and services, which should lead to higher income and operating efficiency in indefinite period of time, that is why this asset has indefinite useful life.

Property, plant and equipment and intangible assets are subject to regular reviews in order to determine whether there were any indications of impairment of these assets. If the impairment triggers are identified, the Bank estimates the amount of the impairment loss as the difference between the carrying amount and the lower recoverable amount. The recoverable amount is the higher of: fair value less costs to sell and

Notes to the financial statements (cont.)

value in use. Fair value less costs to sell is estimated on the basis of available market data or valuations performed by independent experts (which are also in principle based on estimates); whereas the value in use is estimated by adopting specific assumptions, among other things, as to amounts and dates of future cash flows, which the Bank can obtain from a property, plant and equipment item or an intangible asset, as well as the risk of a given asset having no liquidity. Adopting different assumptions for valuation purposes might affect the carrying amount of certain property, plant and equipment items and intangible assets.

Notes to the statement of profit or loss

4. Interest income and expense

Interest income	For the year ended 31 December 2015	For the year ended 31 December 2014
Loans and advances to banks	21 019	29 550
Loans and advances to customers	1 136 383	1 385 128
Financial assets held for trading	176 757	241 414
Derivative hedging instruments	212 292	116 075
Reverse repo instrument	17 445	23 515
Investment securities	70 483	69 034
Total	**1 634 379**	**1 864 715**
Interest expense		
Deposit from banks	-11 557	-23 548
Deposit from customer	-564 315	-600 665
Derivative hedging instruments	-4 916	-6 716
Repo intruments	-10 285	-6 670
Loans and advances received (including subordinated loans)	-92 648	-140 494
Debt securities issued	-15 767	-1 960
Total	**-699 488**	**-780 053**
Net interest income (including):	**934 891**	**1 084 662**
Total interest income from financial assets other than designated at fair value through profit or loss	1 245 330	1 507 226
Total interest expense related to financial assets other than designated at fair value through profit or loss	-694 572	-773 337

Interest income from financial assets with impairment in 2015 equalled to PLN 43 749 thousand (in 2014 PLN 36 775 thousand, presented in “Income from loans and advances to customers”).

Notes to the statement of profit or loss (cont.)

5. Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items

For the year ended 31 December 2015	Impairment allowances and provisions at the beginning of the year	Increases		Decreases					Impairment allowances and provisions at the end of the year	Proceeds from sale of Bank's receivables and other	Impact on the result for the year
		Impairment allowance recorded during the period	Foreign exchange differences	Impair-ment allowance reversal	Write-off of assets	Sale of receiva-bles	Reclassifi-cation	Foreign exchange differences			
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with individual method											
Amounts due from individuals	14 408	36 828	2 596	-34 798	0	-1 172	0	0	17 862	0	-2 030
Amounts due from micro customers	13 071	33 701	2 849	-25 860	0	0	0	0	23 761	0	-7 841
Amounts due from large enterprises	738 616	331 659	7 423	-248 732	-26 108	-97 607	0	0	705 251	16 076	-66 850
Amounts due from SME	60 750	13 431	0	-4 278	-712	-25 796	0	0	43 394	559	-8 593
Off-balance sheet items	26 631	37 969	121	-23 493	0	0	0	0	41 228	0	-14 476
Shares in subsidiaries	16 826	1 126	0	0	0	0	0	0	17 951	0	-1 126
Total	**870 302**	**454 713**	**12 989**	**-337 161**	**-26 820**	**-124 574**	**0**	**0**	**849 448**	**16 635**	**-100 917**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with group method (including IBNR)											
Amounts due from banks	302	121	0	-257	0	0	0	-1	165	0	136
Amounts due from individuals	607 093	290 611	28 338	-241 840	0	-87 802	-50	0	596 350	15 804	-32 967
Amounts due from micro customers	318 764	94 982	3 679	-85 402	0	-34 270	50	0	297 803	2 621	-6 959
Amounts due from large enterprises	60 545	41 574	251	-27 030	0	0	0	0	75 340	0	-14 544
Amounts due from SME	3 633	3 225	6	-2 140	0	0	0	0	4 724	0	-1 085
Amounts due from the public sector	135	155	0	-194	0	0	0	0	96	0	39
Off-balance sheet items	7 408	5 524	17	-4 393	0	0	0	0	8 556	0	-1 131
Total	**997 879**	**436 192**	**32 291**	**-361 256**	**0**	**-122 072**	**0**	**-1**	**983 034**	18 425	**-56 511**
Total allowances and provisions	**1 868 181**	**890 905**	**45 280**	**-698 418**	**-26 820**	**-246 646**	**0**	**-1**	**1 832 482**	**35 060**	**-157 428**

Notes to the statement of profit or loss (cont.)

For the year ended 31 December 2014	Impairment allowances and provisions at the beginning of the year	Increases		Decreases					Impairment allowances and provisions at the end of the year	Proceeds from sale of Bank's receivables	Impact on the result for the year
		Impairment allowance recorded during the period	Foreign exchange differences	Impair-ment allowance reversal	Write-off of assets	Sale of receiva-bles	Reclassifi-cation	Foreign exchange differences			
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with individual method											
Amounts due from individuals	6 825	21 571	279	-14 060	0	-207	0	0	14 408	49	-7 462
Amounts due from micro customers	3 511	28 292	0	-18 464	0	-268	0	0	13 071	63	-9 765
Amounts due from large enterprises	672 247	243 534	11 657	-138 988	-24 921	-24 992	79	0	738 616	428	-104 118
Amounts due from SME	66 473	15 167	189	-7 413	-1 365	-12 222	-79	0	60 750	209	-7 545
Off-balance sheet items	14 306	31 067	654	-19 396	0	0	0	0	26 631	0	-11 671
Shares in subsidiaries	2 149	14 677	0	0	0	0	0	0	16 826	0	-14 677
Total	**765 510**	**354 308**	**12 779**	**-198 321**	**-26 286**	**-37 689**	**0**	**0**	**870 302**	**749**	**-155 238**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with group method (including IBNR)											
Amounts due from banks	205	295	2	-200	0	0	0	0	302	0	-95
Amounts due from individuals	1 299 291	392 037	0	-287 031	0	-773 613	278	-23 869	607 093	181 732	76 726
Amounts due from micro customers	582 245	208 561	30	-134 554	0	-337 267	-251	0	318 764	79 228	5 221
Amounts due from large enterprises	48 956	33 704	700	-22 815	0	0	0	0	60 545	0	-10 889
Amounts due from SME	4 447	718	9	-1 365	0	-149	-26	0	3 633	3	650
Amounts due from the public sector	133	19	0	-17	0	0	0	0	135	0	-2
Off-balance sheet items	8 535	5 100	111	-6 339	0	0	0	0	7 408	0	1 239
Total	**1 943 813**	**640 433**	**852**	**-452 321**	**0**	**-1 111 029**	**0**	**-23 869**	**997 879**	**260 963**	**72 851**
Total allowances and provisions	**2 709 324**	**994 741**	**13 631**	**-650 641**	**-26 286**	**-1 148 718**	**0**	**-23 869**	**1 868 181**	**261 712**	**-82 388**

Notes to the statement of profit or loss (cont.)

6. Fee and commission income and expense

Fee and commission income	**For the year ended 31 December 2015**	**For the year ended 31 December 2014**
Transaction margin on client's foreign exchange dealings	281 844	275 839
Proceeds from card transactions	75 144	89 690
Handling and maintaining of bank accounts	42 647	53 187
Transfers and other payment transactions	52 188	52 630
Insurance intermediary	29 540	30 252
Custody activities	32 836	26 527
Lending activities	34 921	25 293
Handling of cash	21 353	23 062
Guarantee-related commitments	21 955	20 712
Preparation of banking documents	12 853	18 044
Cash receipts	14 130	17 588
Distribution of Open Investment Funds	18 873	10 086
Handling of letters of credit and documentary collection	7 384	8 680
Other	22 582	17 264
Total	**668 250**	**668 854**
Fee and commission expense		
Expenses on payment cards	-14 933	-23 529
Handling of banknote transactions	-20 767	-20 193
Paid to clearing institutions	-18 861	-16 620
Expenses on printing and mailing account statements	-5 480	-6 926
Expenses on brokerage fees (including custody)	-5 707	-4 407
Expenses on service and POS maintenance	-2 085	-3 583
Expenses on BIK services and systems	-3 614	-3 543
Expenses on operating retail clients' accounts	-8 452	-5 132
From margin transaction on client's foreign exchange dealings	-5 043	-4 545
Paid to agents	-3 532	-1 092
Paid for loro accounts service	-3 231	-2 948
Other	-2 715	-1 223
Total	**-94 420**	**-93 741**
Net fee and commission income (including):	**573 830**	**575 113**
Total commission income related to financial assets other than designated at fair value through profit or loss	353 570	366 488
Total commission expense related to financial assets other than designated at fair value through profit or loss	-88 713	-89 334

Notes to the statement of profit or loss (cont.)

7. Net income from instruments measured at fair value and from foreign exchange result

Net income from financial instruments measured at fair value	For the year ended 31 December 2015	For the year ended 31 December 2014
Net income realized and unrealized (without the currency component) on currency derivatives	-48 165	-71 339
Net income realized and unrealized (without the currency component) on interest rate based derivatives	34 028	37 421
Net income realized and unrealized on debt instruments	454	-1 275
Total net income from financial instruments measured at fair value	**-13 683**	**-35 193**

Net income from financial instruments in hedge accounting		
Fair value hedge	**526**	**257**
Changes in fair value of the hedged instrument	-3 514	7 897
Changes in fair value of the hedging instrument	4 040	-7 640
Cash flow hedge	**-1 010**	**1 787**
Ineffective part of changes in fair value of hedging insturments included in profit or loss	-1 010	1 787
Total net income from financial instruments in hedge accounting	**-484**	**2 044**

Net foreign exchange result		
Realized and unrealized foreign exchange differences arising from the currency component of the valuation of derivatives	-739 598	-267 172
Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities	793 390	358 734
Total net foreign exchange result	**53 792**	**91 562**

Total net income from financial instruments measured at fair value and net foreign exchange result	**39 625**	**58 414**

"Net income realised and unrealised (without the currency component) on currency derivatives" contains gains and losses on swaps, forwards and options, except for the separated currency component which constitutes foreign exchange differences. "Net income realised and unrealised (without the currency component) on interest rate based derivatives" contains gains and losses on IRS – interest rate swaps, CIRS, FRA and OIS contracts, except for the separated currency component which constitutes foreign exchange differences. More details on derivatives are provided in Note 14 to the financial statements.

Gains and losses on sale and valuation of financial assets measured at fair value through financial result other than derivatives are presented in "Net income realized and unrealized on debt instruments".

Additional information on hedged and hedging financial instruments is presented in Note 15 to the financial statements.

"Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities" contain profit and loss from revaluation of assets and liabilities denominated in foreign currency.

Notes to the statement of profit or loss (cont.)

Customer margin from FX transactions including mainly margin on spot and forward currency buy or sell transactions is separated from net income from financial instruments measured at fair value and net foreign exchange result and presented in net fee and commission income.

8. General administrative expenses

8.1. Salaries, wages and other employee benefits

Salaries, wages and other employee benefits	For the year ended 31 December 2015	For the year ended 31 December 2014
Salaries and wages	-417 292	-456 203
Social insurance costs	-71 373	-71 077
Costs of jubilee programs	0	-6 112
Other employee benefits	-14 264	-14 929
Total	**-502 929**	**-548 320**

8.2. Other administrative expenses

Other administrative expenses	For the year ended 31 December 2015	For the year ended 31 December 2014
Maintenance and rental of buildings	-140 162	-152 731
including lease installments	-109 702	-119 086
IT and telecommunication costs	-102 007	-129 767
Contribution and payments to Bank Guarantee Fund	-164 762	-52 763
Consulting services	-13 840	-41 292
Marketing costs	-32 295	-40 026
Training costs	-15 014	-19 388
Costs of other lease installments	-5 880	-7 246
Costs of Borrowers' Support Fund	-39 280	0
Other sundry costs	-94 431	-96 922
Depreciation cost including:	-126 337	-146 238
depreciation cost on property, plant and equipment	-47 559	-50 613
depreciation cost on intangible fixed assets	-78 778	-95 625
Total	**-734 008**	**-686 373**

Notes to the statement of profit or loss (cont.)

9. Other operating income and expense

Other operating income	For the year ended 31 December 2015	For the year ended 31 December 2014
Revenue from non-banking activities	3 473	3 207
Release of other provisions	5 250	8 117
Income on disposal of property, plant and equipment and intangible assets	9 693	142
Reversal of impairment allowance on other assets	93	1 165
Other operating income - other	15 113	1 872
Total	**33 622**	**14 504**

The Bank sold its from pre-emption right to new headquarters in return for the amount PLN 8 492 thousand, which is presented in "Other operating income - other".

Other operating expense	For the year ended 31 December 2015	For the year ended 31 December 2014
Expenses on non-banking activities	-8	-255
Expenses on allocation to other provisions	-2 995	-15 054
Impairment of fixed assets	0	-3 968
Costs of sale and disposal of property,plant and equipment and intangible assets	-6 656	-12 632
Debt collection costs	-6 929	-13 604
Other operating expenses -other	-4 967	-8 638
Total	**-21 555**	**-54 150**

Notes to the statement of profit or loss (cont.)

10. Income tax expense

Changes of temporary differences in the year ended 31 December 2015	AS AT THE BEGINNING OF THE YEAR	CHANGES		AS AT THE END OF THE YEAR
		Profit or loss statement	Other comprehensive income	
Deferred income tax asset				
Interest accrued, payable (cost), including:	69 006	-48 634	0	20 372
Interest on deposits	68 104	-49 815	0	18 289
Interest on securities and derivatives	902	1 181	0	2 083
Fair value of derivatives (without the currency component) and securities	40 985	-27 730	-2 011	11 244
Commission settled using effective interest rate	31 613	5 343	0	36 956
Impairment allowance not recognized as tax-deductible costs	166 835	-20 067	0	146 768
Other (including impairment on other assets)	1 202	212	0	1 414
Deferred costs	39 512	-8 066	0	31 446
Other	17 578	-1 480	0	16 098
Tax loss	36 939	44 936	0	81 875
Deferred tax asset, gross	**403 671**	**-55 486**	**-2 011**	**346 174**
Deferred tax provision				
Interest accrued, receivable (income), including:	34 292	5 478	0	39 770
Interest on loans	21 262	5 004	0	26 266
Interest on securities and derivatives	12 320	126	0	12 446
Discount on securities	710	348	0	1 058
Fair value of derivatives (without the currency component) and securities	30 701	-20 719	10 090	20 072
Commission settled using effective interest rate	47 326	3 986	0	51 312
Difference between depreciation for tax and accounting purposes	24 660	3 700	0	28 360
Other	52 832	-2 340	0	50 492
Deferred tax provision, gross	**189 812**	**-9 895**	**10 090**	**190 007**
Deferred tax charge	**213 859**	**-45 591**	**-12 101**	**156 167**
Deferred tax asset, net	**213 859**	**-45 591**	**-12 101**	**156 167**

Notes to the statement of profit or loss (cont.)

Changes of temporary differences in the year ended 31 December 2014	AS AT THE BEGINNING OF THE YEAR	CHANGES		AS AT THE END OF THE YEAR
		Profit or loss statement	Other comprehensive income	
Deferred income tax asset				
Interest accrued, payable (cost), including:	40 261	28 745	0	69 006
Interest on deposits	38 534	29 570	0	68 104
Interest on securities and derivatives	1 727	-825	0	902
Fair value of derivatives (without the currency component) and securities	42 456	-10 248	8 777	40 985
Commission settled using effective interest rate	27 765	3 848	0	31 613
Impairment allowance not recognized as tax-deductible costs	307 918	-141 083	0	166 835
Other (including impairment on other assets)	780	422	0	1 202
Deferred costs	51 227	-11 715	0	39 512
Other	20 228	-2 650	0	17 578
Tax loss	0	36 939	0	36 939
Deferred tax asset, gross	**490 636**	**-95 742**	**8 777**	**403 671**
Deferred tax provision				
Interest accrued, receivable (income), including:	23 171	11 121	0	34 292
Interest on loans	17 791	3 471	0	21 262
Interest on securities and derivatives	5 355	6 965	0	12 320
Discount on securities	25	685	0	710
Fair value of derivatives (without the currency component) and securities	47 002	-16 338	37	30 701
Commission settled using effective interest rate	52 439	-5 113	0	47 326
Difference between depreciation for tax and accounting purposes	26 290	-1 630	0	24 660
Other	49 764	3 068	0	52 832
Deferred tax provision, gross	**198 667**	**-8 892**	**37**	**189 812**
Deferred tax charge	**291 969**	**-86 850**	**8 740**	**213 859**
Deferred tax asset, net	**291 969**	**-86 850**	**8 740**	**213 859**

Notes to the statement of profit or loss (cont.)

Calculation of effective tax rate	For the year ended 31 December 2015	For the year ended 31 December 2014
Profit before tax	207 034	404 488
Current income tax at the local tax rate on profit before tax (19%)	-39 336	-76 853
Tax effect of non-deductible expenses	-15 394	-15 974
Tax effect of non-taxable income, including:	7 771	2 477
effect of dividend income	7 771	8 162
write-off of deferred tax connected with provisions created for receivable income	0	-5 685
Total income tax charge	**-46 959**	**-90 350**

Reconciliation of tax referred to income statement	For the year ended 31 December 2015	For the year ended 31 December 2014
Correction of current income tax regarding previous years	-1 368	-3 500
Deferred tax	**-45 591**	**-86 850**
Total income tax charge	**-46 959**	**-90 350**

11. Earnings per share

11.1. Profit per share

The profit per share was calculated by dividing net profit attributable to the ordinary holders of Bank by weighted average number of ordinary shares in the reporting period.

	For the year ended 31 December 2015	For the year ended 31 December 2014
Net profit attributable to the equity holders of the Bank (in PLN thous.)	160 075	314 138
Weighted average number of ordinary shares in the year (in units)	248 260	243 335
Profit per one share (in PLN)	**645**	**1 291**

11.2. Diluted profit per share

In 2015 and in 2014 there were no diluting events relating to profit per share. Bank did not issue bonds convertible to shares or options for shares. Consequently, the diluted profit per share is equal profit per share.

	For the year ended 31 December 2015	For the year ended 31 December 2014
Net profit attributable to the equity holders of the Bank (in PLN thous.)	160 075	314 138
Weighted average number of ordinary shares in the year (in units)	248 260	243 335
Diluted profit per one share (in PLN)	**645**	**1 291**

Notes to the statement of financial position

12. Cash and balances with Central Bank

	31 December 2015	31 December 2014
Cash at hand	1 067 024	1 757 367
Balances with the Central Bank	1 636 486	926 508
Total	**2 703 510**	**2 683 875**

Intraday the Bank is allowed to use cash deposited on the mandatory reserve accounts for current settlements based on orders sent to the National Bank of Poland. However, the Bank must ensure maintaining an average monthly balance on this account in an appropriate amount as stated in the mandatory reserve declaration. The declared mandatory reserve to be held in December 2015 amounted to PLN 1 418 802 thousand and PLN 1 151 717 thousand in December 2014. These funds bear interest of 0.9 of referencing rate of NBP. As at 31 December 2015 the interest rate amounted to 1.35 % (as at 31 December 2014 1.8 %).

13. Amounts due from bank

	31 December 2015	31 December 2014
Collateral deposits	1 051 393	496 249
Cash on current accounts	48 076	15 090
Loans and advances to banks	56 545	28 692
Deposits with other banks	48 400	88 656
Gross amounts due from banks:	**1 204 414**	**628 687**
Impairment allowance	-165	-302
Net amounts due from banks:	**1 204 249**	**628 385**

As at 31 December 2015 and as at 31 December 2014 “Loans and advances to banks” consisted entirely of floating rate receivables and “Deposits with other banks” comprised of fixed rate receivables. The average interest rate of deposits with other banks and loans and advances to banks in 2015 amounted to 2.02 % (in 2014 2.96%). Long term amounts due from banks as at 31 December 2015 amounted to PLN 42 656 thousand (PLN 16 926 thousand as at 31 December 2014).

The principles for recording of repo transactions are presented in Note 2.10. There were no „buy sell back” transactions with other banks as at the end of both 2015 and 2014.

Collateral deposits are collaterals for open derivatives with negative valuation, presented in liabilities in “Derivative financial instruments”.

Notes to the statement of financial position (cont.)

14. Derivative financial instruments and embedded instruments

14.1. Derivative financial instruments

The Bank enters into following derivative instruments, including those used as hedging instruments:

- currency forwards,
- currency options,
- interest rate instruments.

Currency forwards represent commitments to purchase foreign and domestic currencies, including unrealized spot transactions.

Currency and interest rate swaps are commitments to exchange one stream of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps).

No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank uses the same rating methods to measure counterparty risk as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a specified date or during a specified period, a specific amount of a foreign currency or a financial instrument at a predetermined price. In exchange for the exposure to currency risk and interest rate risk, the seller receives a premium from the buyer. Options may be either exchange-traded or negotiated between the Bank and a customer (OTC). The Bank is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The nominal amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments. Therefore, they do not indicate the Bank's exposure to credit or price risks. The fair value of derivative financial instruments can be either positive (assets) or negative (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates related to their terms. The aggregate fair value of derivative financial instruments may fluctuate significantly.

Notes to the statement of financial position (cont.)

Fair values of derivative financial instruments are presented below:

	31 December 2015			31 December 2014		
	Nominal value of instruments	Fair values		Nominal value of instruments	Fair values	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments in the trading portfolio						
Currency swaps and forwards (fx swap and fx forward)	50 118 262	390 702	390 121	34 910 817	668 218	591 685
Options acquired or sold OTC	2 295 927	14 831	14 843	2 430 436	23 848	21 226
Currency interest rate swaps (CIRS)	0	0	0	1 167 268	0	53 575
Total foreign exchange derivatives	**52 414 189**	**405 533**	**404 963**	**38 508 521**	**692 066**	**666 486**
Interest rate swaps (IRS)	12 822 009	145 236	92 798	8 902 128	193 723	136 464
Forward Rate Agreement (FRA)	3 550 000	3 059	6 103	13 300 000	13 104	20 857
Total interest rate derivatives	**16 372 009**	**148 295**	**98 901**	**22 202 128**	**206 827**	**157 321**
Total	**68 786 198**	**553 828**	**503 864**	**60 710 649**	**898 892**	**823 807**
Derivative financial instruments in cash flow hedges						
FX swaps	1 859 368	4 207	43 265	4 278 758	1 320	50 325
Currency interest rate swaps (CIRS)	6 983 603	4 350	910 946	5 642 898	0	225 680
Total	**8 842 970**	**8 557**	**954 211**	**9 921 656**	**1 320**	**276 005**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	123 822	0	20 536	130 585	0	24 576
Total	**123 822**	**0**	**20 536**	**130 585**	**0**	**24 576**

Notes to the statement of financial position (cont.)

15. Hedge accounting

The Bank applies hedge accounting in fair value hedges of granted fixed rate loans. The Bank uses interest rate swaps as hedging instruments to pay a fixed interest rate coupon in exchange for floating interest rate coupon.

At the end of December 2005, the Bank granted a fixed interest rate loan for a period of 15 years with a nominal value of EUR 45 million and hedged it with an interest rate swap with a nominal value of EUR 44.9 million. The change in the valuation of the loan and of the hedging transaction as at 31 December 2015 and 2014 is presented in the tables below. The information on the ineffective portion of the hedge transferred to the income statement is presented in Note 7.

	For the year ended 31 December 2015	For the year ended 31 December 2014
Result on change in fair value of hedging instrument	4 040	-7 640
Result on change in fair value of hedged instrument	-3 514	7 897
Result on fair value hedge accounting	**526**	**257**
Interest result on derivative hedge instrument	-4 916	-4 905
	For the year ended 31 December 2015	**For the year ended 31 December 2014**
Nominal value of hedging instrument	123 822	130 585
Nominal value of hedged instrument	123 822	130 603

The Bank applies hedge accounting in cash flow hedges to hedge both interest rate risk and currency risk arising from floating rate mortgage loans granted in CHF and EUR and floating interest rate deposits taken in PLN. The Bank uses:

- cross-currency interest rate swaps to pay CHF LIBOR 3M coupon and receive WIBOR 3M coupon, based on the nominal amount defined respectively in CHF and in PLN,

- forward transaction to sell CHF,

- cross-currency interest rate swaps to pay EUR LIBOR 3M coupon and receive WIBOR 3M coupon, based on the nominal amount defined respectively in EUR and in PLN.

Nominal and fair values of hedging derivatives are presented in Note 14.

Amounts recognized in the statement of profit or loss and in revaluation reserve for cash flow hedge are presented in the table below.

Notes to the statement of financial position (cont.)

	For the year ended 31 December 2015	For the year ended 31 December 2014
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross)	10 585	-52 419
Net interest income on hedging derivatives	212 292	114 263
Ineffective change in fair value of hedging transactions presented in the profit or loss statement	-1 010	1 787

Changes in revaluation reserve for cash flow hedge are presented in the table below:

	For the year ended 31 December 2015	For the year ended 31 December 2014
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) at the beginning of the year	**-57 443**	**-5 025**
Revaluation reserves (revaluation with interests realized within the year)	-600 204	-210 891
Interest result on derivative financial instruments in cash flow hedges	-212 292	-114 253
Result on revaluation of derivative financial instruments in cash flow hedges	822 071	274 514
Ineffective change in fair value of hedging transactions presented in the profit or loss statement	1 010	-1 787
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) at the end of the year	**-46 858**	**-57 443**

It is expected that the hedging relation (concerning cash flow hedge) will generate cash flows in the period until May 2022.

Notes to the statement of financial position (cont.)

The below tables present nominal values of hedging derivatives in division to contractual periods of maturity:

31 December 2015	Maturity					Total
	within 1 months	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Derivative financial instruments in cash flow hedges						
Currency swaps and forwards (fx swaps and fx forwards)	1 062 221	690 204	106 943	0	0	1 859 368
Currency interest rate swaps (CIRS)	0	389 000	338 275	4 936 990	1 319 338	6 983 603
Total	**1 062 221**	**1 079 204**	**445 218**	**4 936 990**	**1 319 338**	**8 842 970**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	0	0	0	123 822	0	123 822
Total	**0**	**0**	**0**	**123 822**	**0**	**123 822**

31 December 2014	Maturity					Total
	within 1 months	from 1 to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Derivative financial instruments in cash flow hedges						
Currency swaps and forwards (fx swaps and fx forwards)	2 731 151	1 547 607	0	0	0	4 278 758
Currency interest rate swaps (CIRS)	0	0	0	3 605 330	2 037 568	5 642 898
Total	**2 731 151**	**1 547 607**	**0**	**3 605 330**	**2 037 568**	**9 921 656**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	0	0	0	0	130 585	130 585
Total	**0**	**0**	**0**	**0**	**130 585**	**130 585**

Notes to the statement of financial position (cont.)

16. Financial assets held for trading

Financial assets held for trading	31 December 2015	31 December 2014
Bonds and bills issued by the State Treasury	332 392	196 511
Bonds convertible to shares	0	63 808
NBP bills	12 146 112	0
Corporate bonds	74 316	78 962
Mortgage bonds	17 590	22 343
Total	**12 570 410**	**361 623**

Financial assets held for trading bear interest based on floating market interest rates.

Convertible bonds were compound financial instruments, the derivative financial instrument embedded in a bond was based on an unquoted equity instrument, fair value of which could not be reliably estimated either. In view of the above the entire instrument was classified as held for trading and measured at amortized cost less impairment. In 2015 the convertible bonds were fully redeemed.

Non-current receivables arising from financial instruments measured at fair value at the end of 2015 amounted to PLN 384 798 thousand (PLN 345 780 thousand at the end of 2014).

17. Investment securities

For the year ended 31 December 2015	At the beginning of the year	Increases	Decreases (sale and redemption)	Change of accrued interests, discount and valuation	Foreign exchange differences	Impairment	At the end of the year
Investment securities held to maturity							
Treasury bonds	1 751 553	730 000	-500 000	-16 596	0	0	1 964 957
NBP bills	9 699 462	0	-9 700 000	538	0	0	0
Total held to maturity	**11 451 014**	**730 000**	**-10 200 000**	**-16 057**	**0**	**0**	**1 964 957**
Investment securities available for sale							
Equity investments	27 081	0	0	53 816	-2	0	80 895
Financial instruments blocked for BFG	180 766	5 374 000	-5 326 000	50	0	0	228 816
Corporate bonds	351 353	138 578	-168 044	-1 917	0	0	319 970
Treasury bonds	503 872	1 205 061	-480 000	3 485	0	0	1 232 417
Total available for sale	**1 063 072**	**6 717 638**	**-5 974 044**	**55 434**	**-2**	**0**	**1 862 098**
Total	**12 514 086**	**7 447 638**	**-16 174 044**	**39 376**	**-2**	**0**	**3 827 055**

Notes to the statement of financial position (cont.)

For the year ended 31 December 2014	At the beginning of the year	Increases	Decreases (sale and redemption)	Change of accrued interests, discount and valuation	Foreign exchange differences	Impair ment	At the end of the year
Investment securities held to maturity							
Treasury bonds	1 248 498	495 876	0	7 179	0	0	1 751 553
NBP bills	0	9 699 462	0	0	0	0	9 699 462
Total held to maturity	**1 248 498**	**10 195 337**	**0**	**7 179**	**0**	**0**	**11 451 014**
Investment securities available for sale							
Equity investments	27 069	2 353	0	0	6	-2 348	27 081
Financial instruments blocked for BFG	189 975	1 352 813	-1 370 000	7 978	0	0	180 766
Corporate bonds	294 169	109 404	-59 174	6 954	0	0	351 353
Treasury bonds	0	497 750	0	6 122	0	0	503 872
Total available for sale	**511 213**	**1 962 320**	**-1 429 174**	**21 054**	**6**	**-2 348**	**1 063 072**
Total	**1 759 711**	**12 157 657**	**-1 429 174**	**28 233**	**6**	**-2 348**	**12 514 086**

Information on fair value of financial investment is presented in Note 38. As at 31 December 2015 and 31 December 2014 impairment allowance on equity investment amounted to PLN 14 548 thousand.

Non-current receivables from investment securities as at the end of 2015 amounted to PLN 3 622 192 thousand (PLN 2 273 822 thousand as at the end of 2014).

In December 2015 the Bank received a letter concerning settlement of purchase of 100% of shares of Visa Europe Limited („Visa Europe") by Visa Inc. Subject to regulatory approvals, the transaction is due to close in the second calendar quarter of 2016. According to the received information the Bank will be eligible to receipt of EUR 12 604 thousand in cash and EUR 4 325 thousand in Visa Inc. preferred stock. These figures are not final and can be amended as a consequence of transaction costs and any successful other member appeals. There is the potential for an additional earn-out which shall be payable in cash following the end of the 16th financial quarter post-closing under the condition the Bank will continue to be a principal member (or equivalent) of Visa during the earn-out period. Credible valuation of this payment as at the reporting day is not possible.

As at 31 December 2015 the Bank revalued possessed shares in Visa Europe to fair value determined as value of the cash payment of EUR 12 604 thousand, equivalent PLN 53 712 thousand. The result of revaluation was presented in "Revaluation reserves of assets available for sale". The Bank did not include a part of settlement regarding distribution of Visa Inc. shares due to lack of possibility of credible valuation of these shares as at the reporting day.

Notes to the statement of financial position (cont.)

18. Loans and advances to customers

Loans and advances to customers by borrower segment	31 December 2015			31 December 2014		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Individual customers	19 816 714	614 212	19 202 502	18 679 544	621 500	18 058 044
Micro customers	2 738 324	321 564	2 416 760	2 658 670	331 835	2 326 835
Large enterprises	11 588 614	780 591	10 808 023	14 040 337	799 161	13 241 176
including buy-sell-back transactions	40 429	0	40 429	1 651 297	0	1 651 297
SME	1 288 397	48 119	1 240 278	1 125 636	64 383	1 061 253
Public sector	21 679	96	21 583	29 779	135	29 644
Total	**35 453 728**	**1 764 582**	**33 689 146**	**36 533 966**	**1 817 014**	**34 716 952**

Non-current receivables from loans and advances to customers as at the end of 2015 amounted to PLN 26 269 276 thousand (PLN 25 464 649 thousand as at the end of 2014). Information on the net provisioning for impairment losses on financial assets and provisions for off-balance sheet items is presented in Note 5.

The value of repurchase transaction (buy sell back) with clients as at 31 December 2015 amounted to PLN 40 429 thousand (PLN 1 651 297 thousand as at 31 December 2014), fair value of securities bought in these transactions amounted to PLN 40 209 thousand as at 31 December 2015 (PLN 1 631 976 thousand as at 31 December 2014).

Notes to the statement of financial position (cont.)

Loans and advances to customers by quality

31 December 2015	Loans and advances to customers -without impairment trigger and not impaired	Group impairment allowance IBNR	Loans and advances to customers -with impairment trigger but not impaired	Group impairment allowance IBNR	Impaired loans and advances valued with individual method	Individual impairment allowance	Impaired loans and advances to customers valued with group method	Group impairment allowance	Net amount
Individual customers	18 880 450	63 026	2 122	0	41 881	17 863	892 261	533 323	**19 202 502**
Micro customers	2 045 758	11 006	4 397	0	47 503	23 764	640 666	286 794	**2 416 760**
Large enterprises	9 956 338	51 644	560 895	23 698	1 071 381	705 249	0	0	**10 808 023**
including buy-sell-back transactions	40 429	0	0	0	0	0	0	0	**40 429**
SME	1 212 119	2 982	25 430	1 744	50 848	43 393	0	0	**1 240 278**
Public sector	21 679	96	0	0	0	0	0	0	**21 583**
Total	**32 116 344**	**128 754**	**592 844**	**25 442**	**1 211 613**	**790 269**	**1 532 927**	**820 117**	**33 689 146**

Loans and advances to customers by quality

31 December 2014	Loans and advances to customers -without impairment trigger and not impaired	Group impairment allowance IBNR	Loans and advances to customers -with impairment trigger but not impaired	Group impairment allowance IBNR	Impaired loans and advances valued with individual method	Individual impairment allowance	Impaired loans and advances to customers valued with group method	Group impairment allowance	Net amount
Individual customers	17 790 950	83 662	0	0	32 818	14 407	855 776	523 431	**18 058 044**
Micro customers	1 994 286	32 811	0	0	35 743	13 072	628 641	285 952	**2 326 835**
Large enterprises	12 285 840	39 866	496 215	20 679	1 258 282	738 616	0	0	**13 241 176**
including buy-sell-back transactions	1 651 297	0	0	0	0	0	0	0	**1 651 297**
SME	1 028 124	2 337	19 890	1 297	77 622	60 749	0	0	**1 061 253**
Public sector	29 779	135	0	0	0	0	0	0	**29 644**
Total	**33 128 979**	**158 811**	**516 105**	**21 976**	**1 404 465**	**826 844**	**1 484 417**	**809 383**	**34 716 952**

Notes to the statement of financial position (cont.)

19. Investments in subsidiaries

	31 December 2015	31 December 2014
Raiffeisen-Leasing Polska S.A.	492 687	492 687
Leasing Poland Sp. z o.o	14 600	14 600
Raiffeisen Financial Services Polska Sp. z o.o.	12 245	12 621
Raiffeisen Investment Polska Sp. z o.o.	0	750
Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.	2 000	0
Raiffeisen Solutions Sp. z o.o.	6 050	550
Total	**527 582**	**521 208**

In the year 2015 the Bank recorded impairment on shares in subsidiary Raiffeisen Investment Polska Sp. z.o.o. of PLN 750 thousand and in Raiffeisen Financial Services Polska Sp. z o.o. of PLN 376 thousand.

The most important information on consolidated subsidiaries is presented in the table below:

Name of subsidiary	Country of residence	Assets	Liabilities	Income	Net income	Share (%)
31 December 2015						
Raiffeisen-Leasing Polska S.A.	Poland	7 134 779	6 558 426	355 926	54 235	100,00%
Raiffeisen Financial Services Polska Sp. z o.o.	Poland	12 791	545	5 524	-183	99,99%
Raiffeisen Investment Polska Sp. z o.o.	Poland	1 234	2 612	2 221	-1 497	100,00%
Raiffeisen Solutions Sp. z o.o.	Poland	5 741	3 939	110	-3 751	100,00%
31 December 2014						
Raiffeisen-Leasing Polska S.A.	Poland	6 511 548	5 949 430	353 638	44 183	100,00%
Raiffeisen Financial Services Polska Sp. z o.o.	Poland	14 924	1 595	12 164	928	99,99%
Raiffeisen Investment Polska Sp. z o.o.	Poland	2 632	2 513	1 621	-1 481	49,98%
Raiffeisen Solutions Sp. z o.o.	Poland	292	240	4	-497	100,00%

Notes to the statement of financial position (cont.)

20. Intangible assets

For the year ended 31 December 2015	Goodwill	"Polbank" brand	Customers relation - ships	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT							
As at 1 January	**32 966**	**200 000**	**70 400**	**640 668**	**34 656**	**10 969**	**989 660**
Additions during the year, including:	0	0	0	46 973	2 017	0	**48 990**
Direct additions during the year	0	0	0	3 686	45 794	0	**49 480**
Internal development or reclassification	0	0	0	43 287	-43 777	0	**-491**
Disposals during the year	0	0	0	-18 372	-2 284	-2 149	**-22 806**
As at 31 December	**32 966**	**200 000**	**70 400**	**669 269**	**34 389**	**8 820**	**1 015 844**
ACCUMULATED DEPRECIATION							
As at 1 January	**0**	**0**	**29 884**	**386 900**	**0**	**0**	**416 784**
Depreciation charge for the year	0	0	13 951	64 827	0	0	**78 778**
Disposals during the year	0	0	0	-15 722	0	0	**-15 722**
As at 31 December	**0**	**0**	**43 835**	**436 004**	**0**	**0**	**479 839**
IMPAIRMENT							
As at 1 January	**0**	**0**	**0**	**10**	**649**	**0**	**658**
Additions	0	0	0	0	0	0	**0**
Decreases	0	0	0	0	0	0	**0**
As at 31 December	**0**	**0**	**0**	**10**	**649**	**0**	**658**
NET AMOUNT							
As at 1 January	**32 966**	**200 000**	**40 516**	**253 759**	**34 007**	**10 969**	**572 218**
As at 31 December	**32 966**	**200 000**	**26 565**	**233 255**	**33 740**	**8 820**	**535 346**

In 2015 and 2014, there were no restrictions as to the legal title to intangible assets related to collateral of liabilities.

The amount of contractual commitments for the acquisition of intangible assets as of 31 December 2015 equaled to PLN 834 thousand (PLN 2 869 thousand as of 31 December 2014). The agreements will be executed within one year.

The Bank's intangible assets include goodwill, the "Polbank" brand and customer relationships which were recognized as a result of acquisition of Polbank EFG S.A.

Goodwill and "Polbank" brand have indefinite useful lives, therefore they are not amortized but are subject to annual impairment tests. As at 31 December 2015, the Bank performed an impairment test of goodwill and "Polbank" brand. The test did not reveal a necessity to record an impairment allowance.

Notes to the statement of financial position (cont.)

Customer relationships are amortized using diminishing method for 5 years (deposits) and 10 years (loans). If impairment triggers are identified the assets are subject to periodic impairment tests (see Note 2.16.2. to the financial statements).

The impairment test of the "Polbank" brand and goodwill has been described in Note 3.5 to the financial statements.

As of 31 December 2015 the Bank recognized impairment on computer software under development due to decisions not to continue selected projects.

For the year ended 31 December 2014	**Goodwill**	**"Polbank" brand**	**Customers relation - ships**	**Computer software**	**Computer software under development**	**Advances for intangible assets**	**Total**
GROSS AMOUNT							
As at 1 January	**32 966**	**200 000**	**70 400**	**586 633**	**81 770**	**14 853**	**986 622**
Additions during the year, including:	0	0	0	117 925	-44 868	0	**73 057**
Direct additions during the year	0	0	0	7 759	65 298	0	**73 057**
Internal development or reclassification	0	0	0	110 166	-110 166	0	**0**
Disposals during the year	0	0	0	-63 890	-2 246	-3 883	**-70 019**
As at 31 December	**32 966**	**200 000**	**70 400**	**640 668**	**34 656**	**10 969**	**989 660**
ACCUMULATED DEPRECIATION							
As at 1 January	0	**0**	**11 745**	**361 326**	**0**	**0**	**373 071**
Depreciation charge for the year	0	0	18 139	77 487	0	0	**95 625**
Disposals during the year	0	0	0	-51 913	0	0	**-51 913**
As at 31 December	**0**	**0**	**29 884**	**386 900**	**0**	**0**	**416 784**
IMPAIRMENT							
As at 1 January	**0**	**0**	**0**	**2 051**	**1 550**	**0**	**3 601**
Additions	0	0	0	40	0	0	40
Decreases	0	0	0	-2 082	-901	0	-2 983
As at 31 December	**0**	**0**	**0**	**10**	**649**	**0**	**658**
NET AMOUNT							
As at 1 January	**32 966**	**200 000**	**58 655**	**223 256**	**80 220**	**14 853**	**609 949**
As at 31 December	**32 966**	**200 000**	**40 516**	**253 759**	**34 007**	**10 969**	**572 218**

Notes to the statement of financial position (cont.)

21. Property, plant and equipment

For the year ended 31 December 2015	Buildings, apartments and leasehold improvements	Technical equipment and machinery	Vehicles	Other tangible assets	Assets under construction	Advances for property, plant and equipment	Total
GROSS AMOUNT							
As at 1 January	**219 662**	**322 775**	**30**	**35 430**	**9 387**	**2 369**	**589 653**
Additions during the year, including:	1 925	18 163	0	1 775	-328	515	**22 050**
Direct additions during the year	454	10 536	0	698	9 357	515	**21 559**
Internal development or reclassification	1 471	7 627	0	1 077	-9 684	0	**491**
Disposals during the year	-9 414	-16 666	0	-3 195	-239	0	**-29 515**
As at 31 December	**212 172**	**324 272**	**30**	**34 010**	**8 820**	**2 884**	**582 188**
ACCUMULATED DEPRECIATION							
As at 1 January	**155 304**	**242 478**	**27**	**29 554**	**0**	**0**	**427 363**
Depreciation charge for the year	15 212	30 097	2	2 248	0	0	**47 559**
Disposals during the year	-5 706	-16 078	0	-3 080	0	0	**-24 864**
Reclassification	0	1	0	-1	0	0	**0**
As at 31 December	**164 809**	**256 499**	**29**	**28 721**	**0**	**0**	**450 057**
IMPAIRMENT							
As at 1 January	**297**	**4 002**	**0**	**14**	**1 703**	**0**	**6 016**
Additions	3 188	764	0	62	0	0	**4 014**
Decreases	-2 491	-348	0	-58	0	0	**-2 896**
As at 31 December	**994**	**4 418**	**0**	**18**	**1 703**	**0**	**7 134**
NET AMOUNT							
As st 1 January	**64 061**	**76 295**	**2**	**5 862**	**7 684**	**2 369**	**156 274**
As at 31 December	**46 369**	**63 355**	**1**	**5 271**	**7 117**	**2 884**	**124 997**

Notes to the statement of financial position (cont.)

For the year ended 31 December 2014	Buildings, apartments and leasehold improvements	Technical equipment and machinery	Vehicles	Other tangible assets	Assets under construction	Advances for property, plant and equipment	Total
GROSS AMOUNT							
As st 1 January	**225 752**	**325 019**	**30**	**37 815**	**6 711**	**3 624**	**598 950**
Additions during the year, including:	2 575	9 533	0	771	3 277	0	**16 156**
Direct additions during the year	604	3 907	0	325	11 320	0	**16 156**
Internal development or reclassification	1 971	5 626	0	446	-8 043	0	**0**
Disposals during the year	-8 665	-11 777	0	-3 156	-601	-1 255	**-25 454**
As at 31 December	**219 662**	**322 775**	**30**	**35 430**	**9 387**	**2 369**	**589 653**
ACCUMULATED DEPRECIATION							
As at 1 January	**138 515**	**219 519**	**23**	**29 096**	**0**	**0**	**387 153**
Depreciation charge for the year	15 010	32 653	4	2 946	0	0	**50 613**
Disposals during the year	0	-9 686	0	-2 492	0	0	**-12 179**
Reclassification	1 779	-8	0	4	0	0	**1 775**
As at 31 December	**155 304**	**242 478**	**27**	**29 554**	**0**	**0**	**427 363**
IMPAIRMENT							
As at 1 January	**7 995**	**1 317**	**0**	**445**	**2 284**	**0**	**12 041**
Additions	736	4 055	0	30	0	0	**4 821**
Decreases	-8 435	-1 370	0	-461	-581	0	**-10 847**
As at 31 December	**297**	**4 002**	**0**	**14**	**1 703**	**0**	**6 016**
NET AMOUNT							
As at 1 January	**79 242**	**104 183**	**6**	**8 274**	**4 426**	**3 624**	**199 755**
As at 31 December	**64 061**	**76 295**	**2**	**5 862**	**7 684**	**2 369**	**156 274**

In 2015 and 2014, there were no restrictions as to the legal title to property, plant and equipment related to collateral of liabilities.

The amount of contractual commitments for the acquisition of property, plant and equipment as of 31 December 2015 equaled to PLN 3 860 thousand (PLN 47 thousand as of 31 December 2014). The agreements will be executed within one year.

As at 31 December 2015 and 31 December 2014, the Bank did not use any other property, plant and equipment in financial leases.

As at 31 December 2015 Bank recognized impairment of property, plant and equipment due to decisions not to continue the development of selected assets or decisions not to further use selected assets.

Notes to the statement of financial position (cont.)

22. Other assets

	31 December 2015	31 December 2014
Financial assets gross, including:		
Collection of bills and cheques	368	526
Sundry debtors	93 469	49 098
Settlements with brokerage offices – receivables	5 225	4 414
Settlements of payment cards transactions - receivables	76 052	76 725
Total financial assets, gross	**175 114**	**130 763**
Impairment allowance	-3 496	-2 261
Total financial assets, net	**171 618**	**128 502**
Non-financial assets gross, including:		
Accruals and prepayments	41 638	29 807
Income receivable	3 574	772
Assets acquired for debt	2 794	16 390
Public (law) settlements	46 059	48 902
Total non-financial assets, gross	**94 065**	**95 871**
Impairment allowance	0	0
Total non-financial assets, net	**94 065**	**95 871**
Total	**265 683**	**224 373**

Non-current receivables as at the end of 2015 amounted to PLN 22 634 thousand (PLN 21 936 thousand at the end of 2014).

Public (law) settlements primarily include the amount of disputed claims for overpaid income tax. In 2009 the Bank was subject to two tax inspections concerning the correctness of corporate income tax settlements in 2004 and 2007. In 2012 there was another examination of corporate income tax settlement for 2006. As a result, the tax authorities expressed an opinion different to the one of the Management of the Bank as to the tax treatment of the result on investments made in 2004, 2006 and 2007. Having maintained its stance on the correctness of tax settlement the Bank has paid the tax liabilities with interests and recognized at the same time receivables from the Tax Authority. Tax inspections regarding income tax settlements were finalized by the decisions of Director of the Tax Chamber. Bank made an appeal against this decision to the Voivodeship Administrative Court.

The Voivodeship Administrative Court overruled the decisions issued by the Director of the Tax Chamber for years 2004, 2006 and 2007. The tax authority appealed for years 2004, 2006 and 2007 to Supreme Administrative Court. On 24 November, 2015 Supreme Administrative Court overruled the appealed judgments and passed the cases for renewed recognition by the Voivodeship Administrative Court. The

Notes to the statement of financial position (cont.)

amount of disputed claim amounted to PLN 79 920 thousand, including the main claim of PLN 57 188 thousand and paid penalty interests amounting to PLN 22 732 thousand.

Risk assessment of the above mentioned dispute made by the Management of the Bank

Polish tax regulations are subject to interpretations and changes, therefore as shown above, it is theoretically possible that interpretation of these regulations by tax authorities may differ from the one applied by the Bank, which may result in tax authorities striving to assess a different amount of tax than that actually paid by the Bank.

Nevertheless, as at the date of signing the separate financial statements, the Management of the Bank maintains its stance regarding the correctness of income tax settlements of the Bank. In Management's opinion the standing of the Tax Authority resulting from the inspection is unfounded and expected to be solved positively and as a result the Tax Authority would return to the Bank paid tax receivables with interests.

Change in impairment allowances on other receivables	**For the financial year ended 31 December 2015**	**For the financial year ended 31 December 2014**
At the beginning of the year	**2 261**	**7 916**
Impairment allowance recorded	4 444	3 216
Use of impairment allowance	-215	-5 520
Reversal of impairment allowance	-2 994	-3 350
At the end of the year	**3 496**	**2 261**

23. Amounts due to banks and other monetary institutions

	31 December 2015	**31 December 2014**
Current accounts	251 817	958 165
Term deposits	226 973	858 558
Loans received	7 457 205	8 012 111
Repo transactions	0	1 413 968
Total	**7 935 995**	**11 242 801**

Non-current amounts due to banks and other monetary financial institutions equaled PLN 4 077 925 thousand at the end of 2015 (PLN 5 334 585 thousand at the end of 2014).

As at 31 December 2015 value of repurchase agreements (sell buy back) with banks and other monetary institutions equaled zero. As at 31 December 2014 value of repurchase agreements (sell buy back) amounted to PLN 1 413 968 thousand, fair value of securities sold under those transactions amounted to PLN 1 397 146 thousand.

Notes to the statement of financial position (cont.)

24. Amounts due to customers

	31 December 2015	31 December 2014
Amounts due to individuals	17 512 927	14 011 515
Amounts due to micro customers	1 957 634	1 733 592
Amounts due to large enterprises	15 629 555	15 194 626
Amounts due to SME	3 654 064	2 824 797
Total	**38 754 180**	**33 764 529**

Non-current amounts due to customers amounted to PLN 69 488 thousand at the end of 2015 (PLN 62 178 thousand at the end of 2014).

The value of repurchase agreements (sell buy back) with clients as at 31 December 2015 amounted to zero. As at 31 December 2014 value of repurchase agreements (sell buy back) with clients amounted to PLN 208 678 thousand, fair value of securities sold under those transactions amounted to PLN 206 327 thousand.

25. Subordinated liabilities

	31 December 2015	31 December 2014
A loan of EUR 25 million due in 2017	106 812	106 870
A loan of EUR 50 million due in 2024	213 095	213 136
A loan of EUR 95 million due in 2022	404 882	0
Total	**724 789**	**320 006**

Subordinated loans will be repaid by the Bank on the date of their maturity. In both 2015 and 2014 the Bank did not record any delays in repayment schedules nor violated any other contractual terms concerning its liabilities. The loans are not additionally secured. All loans were granted by Raiffeisen Bank International.

In accordance with the decisions of the Polish Financial Supervision Authority (PFSA), the Bank can classify subordinated liabilities as its own funds, except for the loan of EUR 95 million due in 2022, Bank requested PFSA for the approval to classify this loan as own funds and waits for the PFSA decision. For the purpose of calculating the Bank's own funds, the amounts constituting subordinated loans classified as own funds are gradually amortized in accordance with the regulations of the Polish Financial Supervision Authority.

The whole balance of subordinated debt as at the end of 2015 consist of non-current liabilities similarly as at 31 December 2014.

Notes to the statement of financial position (cont.)

26. Liabilities from debt securities issued

For the year ended 31 December 2015	At the beginning of the year	Increases from issue	Decreases - payment of interests	Change of accrued interests	At the end of the year
Liabilities from debt securities issued	501 960	0	-15 890	15 755	501 825
Total	**501 960**	**0**	**-15 890**	**15 755**	**501 825**

For the year ended 31 December 2014	The beginning of the year	Increases from issue	Change of accrued interests	Other changes	At the end of the year
Liabilities from debt securities issued	0	500 000	1 960	0	501 960
Total	**0**	**500 000**	**1 960**	**0**	**501 960**

At 19 November 2014 the Bank issued "Series A bearer bonds of Raiffeisen Bank Polska S.A." amounting to PLN 500 million. These bonds are not secured, non – subordinated, denominated in PLN maturing at 19 November 2017. The bonds' interest rate is based on Wibor 6M increase by 1,3% interest margin . The interests are paid in semi – annual periods.

The issue of "Series A bearer bonds of Raiffeisen Bank Polska S.A." is the first part of Bank's corporate bonds issuance plan in total amount of PLN 2 billion.

27. Other liabilities

	31 December 2015	31 December 2014
Financial liabilities, including:		
Interbank settlements	58 209	87 558
Settlements with brokerage offices	1 475	1 878
Sundry creditors and accruals	190 998	130 808
Settlements related to payment cards	31 025	20 764
Total financial liabilities gross	**281 707**	**241 008**
Non-financial liabilities, including:		
Deferred income	67 181	66 323
Social and legal settlements	26 033	17 066
Other	1 451	5 019
Total non-financial liabilities gross	**94 665**	**88 408**
Total	**376 372**	**329 416**

Non-current liabilities as at 31 December 2015 amounted to PLN 36 999 thousand (PLN 26 652 thousand as at 31 December 2014).

Notes to the statement of financial position (cont.)

28. Provisions

For the year ended 31 December 2015	At the beginning of the year	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreign exchange differences	At the end of the year
Provisions for off-balance sheet liabilities assessed individually	26 631	37 969	-23 493	0	121	41 228
Provisions for off-balance sheet liabilities assessed collectively IBNR	7 408	5 524	-4 393	0	17	8 556
Total provisions for off-balance sheet items	**34 039**	**43 493**	**-27 886**	**0**	**138**	**49 784**
Provisions for disputes and claims	19 877	0	-2 965	-865	0	16 047
Provision for jubilee benefits	34 702	0	-33 509	-1 193	0	0
Provision for bonus payments	48 460	106 401	-30 538	-74 054	-1	50 268
Provision for overdue vacations	23 495	0	0	-3 493	0	20 002
Provision for pension benefits	3 411	0	-40	-13	0	3 359
Restructuring provision	37 822	0	-922	-27 191	0	9 709
Total provisions	**167 768**	**106 401**	**-67 973**	**-106 809**	**-1**	**99 386**
Total	**201 807**	**149 894**	**-95 859**	**-106 809**	**137**	**149 170**

For the year ended 31 December 2014	At the beginning of the year	Provisions or impairment allowance recorded	Provisions or impairment allowance reversed	Provisions or impairment alllowance utilized	Foreign exchange differences	At the end of the year
Provisions for off-balance sheet liabilities assessed individually	14 306	31 067	-19 396	0	654	26 631
Provisions for off-balance sheet liabilities assessed collectively IBNR	8 535	5 100	-6 339	0	111	7 408
Total provisions for off-balance sheet items	**22 841**	**36 167**	**-25 734**	**0**	**765**	**34 039**
Provisions for disputes and claims	13 380	11 568	-4 576	-495	0	19 877
Provision for jubilee benefits	28 590	6 112	0	0	0	34 702
Provision for bonus payments	83 804	89 147	-50 611	-73 881	0	48 460
Provision for overdue vacations	16 499	10 387	0	-3 390	0	23 495
Provision for pension benefits	1 808	1 605	0	-2	0	3 411
Restructuring provision	34 005	29 206	0	-25 389	0	37 822
Other provisions	524	0	-524	0	0	0
Total provisions	**178 610**	**148 026**	**-55 711**	**-103 157**	**0**	**167 768**
Total	**201 451**	**184 192**	**-81 445**	**-103 157**	**765**	**201 807**

Impairment provisions for off-balance sheet commitments include impairment provisions for financial guarantees. Financial guarantees and other off-balance sheet commitments are discussed in Note 30.

Provisions for legal disputes comprised, among others:

- provision relating to the penalty imposed on the Bank by the Office of Competition and Consumer Protection (OCCP) in October 2014 for the practices of concluding the agreements relating to joining the group insurance for life and endowment called "Program Pomnażania Oszczędności Kumulatus". The penalty amounted to PLN 21 122 thousand. The decision is not final. The Bank appealed from the

Notes to the statement of financial position (cont.)

judgment. The Bank created provision for this penalty in amount of PLN 10 561 thousand, because in the Bank's opinion possible outflow would not exceed this amount,

- provision in the amount of PLN 5 486 thousand for potential claims resulting from disputes with former Polbank's franchisee partners.

The amount of long term provisions as at 31 December 2015 equaled PLN 6 231 thousand (PLN 6 284 thousand as at 31 December 2014) and referred to retirement, pension and death benefits as well as Share Incentive Program designed for the Board Members of the Bank.

The restructuring provision as at 31 December 2015, in the amount of PLN 9 709 thousand (PLN 37 822 thousand as at 31 December 2014) has been created mainly for the purpose of severance payments resulting from the restructuring programs, as well as costs associated with the liquidation of the Bank's branches. The change of the provision with reference to the previous reporting period resulted mainly from realization of employment optimalization program.

In the IV quarter of 2015 the Management Board of the Bank decided to liquidate "Raif'fajne Lata" program what resulted with reversal of provision equal to PLN 33 509 thousand.

29. Equity

	Par value of shares held		Number of shares (in units)	
Registered share capital	**For the year ended 31 December 2015**	**For the year ended 31 December 2014**	**For the year ended 31 December 2015**	**For the year ended 31 December 2014**
At the beginning of the year	2 256 683	2 207 461	248 260	242 845
Issue of shares	0	49 222	0	5 415
At the end of the year	**2 256 683**	**2 256 683**	**248 260**	**248 260**

All shares have been paid in full. All shares have exactly the same voting and dividend rights. The nominal value of one share is 9 090 PLN. Raiffeisen Bank International AG (RBI) is the only shareholder, currently in possession of 100% of the Bank's share capital.

Raiffeisen Bank International has been created from separated areas of Raiffeisen Zentralbank Österreich AG (RZB) and Raiffeisen International Bank-Holding AG (RI). RBI is a fully consolidated subsidiary of RZB. RZB holds 60.7% stake in RBI. The remaining part of the share capital is in free float on the Vienna Stock Exchange, where Raiffeisen has been listed since 2005.

Notes to the statement of financial position (cont.)

Other capital and reserves	31 December 2015	31 December 2014
General banking risk reserve	970 019	950 019
Settlement of the purchase of the organized part of entity	-3 883	-3 883
Valuation of available for sale financial assets	43 174	159
Valuation of derivatives in cash flow hedges	-37 955	-46 529
Brokerage activities reserve	1 000	1 000
Other reserves	**46 522**	**46 522**
At the end of the year	**1 018 877**	**947 287**

The net profit for the current and prior years was distributed as follows:

Retained earnings	For the year ended 31 December 2015	For the year ended 31 December 2014
At the beginning of the year	544 336	270 198
Transfer of net profit to retained earnings	160 075	314 138
Transfer of net profit to general banking risk reserve	-20 000	-40 000
At the end of the year	**684 411**	**544 336**

Dividends

Based on recommendations of the Management Board and the Supervisory Board the Bank did not pay dividend from 2014 profit. The Management Board of the Bank would not recommend dividend payment from 2015 profit.

30. Contingent liabilities

The table below presents given and received items off balance sheet:

	31 December 2015	31 December 2014
Guarantees issued		
Bank guarantees	1 668 787	1 766 164
Letters of credit and bank acceptances	215 575	253 759
Total guarantees issued	**1 884 362**	**2 019 923**
Financial liabilities granted		
Granted loan commitments:	8 122 312	4 454 747
With initial maturity up to 1 year	3 659 332	1 970 057
With initial maturity above 1 year	4 462 980	2 484 690
Total financial liabilities granted	**8 122 312**	**4 454 747**
Total	**10 006 674**	**6 474 670**

	31 December 2015	31 December 2014
Guarantees received	5 635 557	5 888 622
Total	**5 635 557**	**5 888 622**

Notes to the statement of financial position (cont.)

All loan commitments of the Bank are unconditional, except for granted and unused tranches of mortgage loans and investment loans for small and medium enterprises. A detailed description of the risks related to off-balance commitments is presented in the notes on risk management.

Legal disputes

The total disputed amount in litigations against the Bank equaled PLN 71 790 thousand as at 31 December 2015 (PLN 65 883 thousand as at 31 December 2014). The Bank created provisions for cases in which probability of economic outflow was higher than 50%. For the remaining part of litigations against the Bank the risk of economic outflow is estimated as possible (below 50%). As at 31 December 2015 the total value of provisions for litigations against the Bank amounted to PLN 5 486 thousand (provisions for claims of former franchisee partners of the Bank, PLN 7 494 thousand as at 31 December 2014), see Note 28 of the financial statements.

The above information does not concern (similarly to 2014), due to their character, the cases put against the Consumer and Competition Protection court. The value of provisions for these cases equaled PLN 10 561 thousand as at 31 December 2015 (PLN 12 383 thousand as at 31 December 2014).

Legal disputes with Tax Authorities comprise separate group of litigations. They were described in Note 22.

31. The Bank as a lessee

In the case of operating leases where the Bank is a lessee, the minimum future lease payments resulting from irrevocable operating lease agreements are as follows:

	31 December 2015	31 December 2014
Up to 1 year	131 248	188 572
1 to 5 years	280 664	307 560
More than 5 years	148 945	131 010
Total	**560 857**	**627 141**

The liabilities listed in the table are related to signed operating lease agreements for buildings or apartments for the needs of the Bank's business activities, and operational leases of cars.

32. Pledged assets and of limited disposability

In the following table the information about financial pledged assets or about assets of limited disposability is presented.

Notes to the statement of financial position (cont.)

	Note	31 December 2015	31 December 2014
Cash and balances with Central Bank	**12**		
Mandatory reserves with the Central Bank		1 418 802	926 508
Amounts due from banks	**13**		
Collateral deposits and other		1 051 393	496 249
Investment securities	**17**		
Treasury bonds serving as collateral for received loans		447 393	0
Financial instruments blocked for BFG		228 816	180 766
Loans and advances to customers	**18**		
Collateral deposits for currency transaction- receivables		5 553	0
Amounts due to banks and other monetary institutions	**23**		
Repurchase transactions (sell buy back) - carrying value of liabilities		0	1 413 968
Repurchase transactions (sell buy back) -fair value of sold securities		0	1 397 146
Amounts due to customers	**24**		
Repurchase transactions (sell buy back) - carrying value of liabilities		0	208 678
Repurchase transactions (sell buy back) -fair value of sold securities		0	206 327

All securities sold in repurchase transactions (sell buy back) presented in the table above were purchased by the Bank in reverse repurchase transactions (buy sell back).

33. Securitization and sale of Bank's receivables

33.1. Synthetic securitization of Bank's corporate loan portfolio.

In 2006, the Bank has conducted a synthetic securitization of the portfolio of loans granted to corporate customers. The securitization transaction involved concluding an off-balance loan transaction between the Bank and KfW (Kreditanstalt für Wiederaufbau) in order to transfer all credit risks associated with the loans in the securitized portfolio. The original value of securitized assets and liabilities amounted to ca. EUR 250 million. Transactions renewal period lasted for five years, during which the debt that had been repaid was replaced. In August 2013 the agreement was terminated and from this date only previously reported and not settled credit being collected remained under the securitization cover. The main benefit arising from the transaction for the Bank has been the transfer of credit risk (guarantee received), which resulted in a reduction of the regulatory capital requirement and no impairment recognized on the assets within the portfolio. In the year 2015 the above described securitization program was terminated and payment received from settlements of the securitization of PLN 9 660 thousand were presented in note 5 in column "Proceeds from sale of Bank's receivables and other".

Notes to the statement of financial position (cont.)

33.2. Sale of receivables

In 2015, the Bank sold impaired loans and advances to customers with total capital value of PLN 257 412 thousand (in 2014 of PLN 1 255 777 thousand). Portfolios consisted of receivables granted to individuals, micro-entrepreneurs, and corporations. Receivables were in significant part covered by impairment allowance or fully written off from Bank's balance sheet. Total result from transactions of sale of these receivables amounted to PLN 24 954 thousand (in 2014 of PLN 261 712 thousand) and was presented in line "Net provision for impairment losses on financial assets and provisions for off-balance sheet items". The buyers of the portfolios were non-standardized closed-end securitization and investment funds unrelated to the Bank. All risks and rewards from sold portfolios were transferred to the buyers.

34. Custody activities

The Bank acts as a custodian, which involves maintaining or investing assets on behalf of individuals, funds, pension plans and other institutions. Such assets and the related revenues have not been disclosed in the financial statements, because they do not belong to the Bank.

As at 31 December 2015 the Custody Unit maintained 537 securities accounts for customers (564 accounts as at 31 December 2014). The total fair value of financial instruments of Custody Unit's clients amounted to PLN 22 452 798 thousand as at 31 December 2015 (17 100 643 thousand as at 31 December 2014).

In the reporting period, the Bank kept publicly traded securities, securities in a material form and securities traded abroad. As a part of providing custody services to customers, the Bank cooperated with several brokerage offices. The Bank acts as a depositary for customers and for its own portfolio, and derivative rights as a representative and for an entity that is not a KDPW (National Securities Depository) participant.

35. Supplementary information to statement of cash flows

Cash and cash equivalents	31 December 2015	31 December 2014
Cash in hand at the Bank	1 067 024	1 757 367
Cash on the current account with the Central Bank	1 636 486	926 508
Cash on Nostro accounts in other banks	48 076	15 090
Deposits in other banks (due within 3 months)	38 400	88 656
Cash and cash equivalents presented in the cash flow statement	**2 789 986**	**2 787 621**

Reconciliation of changes in assets and liabilities presented in the statement of cash flows with the changes of the respective assets and liabilities in the statement of financial position is presented in the tables below. The differences are as follows:

Notes to the statement of financial position (cont.)

1. Changes in the individual assets and liabilities were adjusted with interest disclosed in the position "Interest received/paid".
2. Changes in the receivables being an equivalent of cash was excluded from the position "Interbank placements, loans and advances to other banks" and were disclosed in the position "Net increase/decrease in cash and cash equivalents".
3. Change in "Derivative financial instruments" does not include the part of derivative valuation that was accounted through equity (valuation of cash-flow hedge derivatives)
4. The following items were excluded from "Amounts due to banks and other monetary institutions":

a) interests from financial activity which were disclosed in position "Transfer of interest and dividend from investing and financing activities";

b) inflows and outflows from financial activities from receiving and repayment (including interests) of long term loans from banks and were disclosed in the position "Inflows from subordinated liabilities and long-term bank loans" or "Outflows from repayment of subordinated liabilities and long-term bank loans";

c) unrealized foreign exchange differences from received loans from banks and were disclosed in position "Unrealized foreign exchange differences".

Notes to the statement of financial position (cont.)

For the year ended 31 December 2015	changes: in statement of financial position	changes: in statement of cash flows	difference of which:	1	2	3	4a	4b	4c
Interbank placements, loans and advances to other banks	-575 864	-614 240	38 376	21 106	17 270	0	0	0	0
Financial assets held for trading	-12 208 787	-12 387 979	179 192	179 192	0	0	0	0	0
Derivative financial instruments	692 051	501 474	190 577	201 162	0	-10 585	0	0	0
assets	337 828	142 213	195 615	206 200	0	-10 585	0	0	0
liabilities	354 223	359 261	-5 038	-5 038	0	0	0	0	0
Loans and advances to customers	1 027 806	-99 617	1 127 423	1 127 423	0	0	0	0	0
Amounts due to banks and other monetary institutions	-2 902 023	-2 671 586	-230 437	-371 959	0	0	92 648	-160 762	209 636
Amounts due to customers	4 989 651	5 559 147	-569 496	-569 496	0	0	0	0	0

For the year ended 31 December 2014	changes: in statement of financial position	changes: in statement of cash flows	difference of which:	1	2	3	4a	4b	4c
Interbank placements, loans and advances to other banks	-274 444	-359 277	84 833	53 202	31 631	0	0	0	0
Financial assets held for trading	8 409 183	8 171 823	237 360	237 360	0	0	0	0	0
Derivative financial instruments	303 193	146 648	156 545	104 126	0	52 419	0	0	0
assets	-367 250	-530 486	163 236	110 817	0	52 419	0	0	0
liabilities	670 443	677 134	-6 691	-6 691	0	0	0	0	0
Loans and advances to customers	-1 508 720	-2 870 463	1 361 743	1 361 743	0	0	0	0	0
Amounts due to banks and other monetary institutions	50 389	2 479 901	-2 429 512	-34 352	0	0	140 494	-2 810 062	274 407
Amounts due to customers	3 303 539	3 909 965	-606 426	-606 426	0	0	0	0	0

Notes to the statement of financial position (cont.)

36. Net income from financial instruments

Net income from loans and advances granted to customers and banks

	For the year ended 31 December 2015	For the year ended 31 December 2014
Interest income, including:	1 157 402	1 414 678
from loans and advances granted to banks	21 019	29 550
from loans and advances granted to customers	1 136 383	1 385 128
Commission income – fees and commissions on lending activity	34 921	25 293
Costs related to intermediation in the sale of credit products	-3 944	-1 929
Costs related to securitization of loan receivables	-218	-235
Total	**1 188 161**	**1 437 807**

Net income on investment securities

	For the year ended 31 December 2015	For the year ended 31 December 2014
Discount income	5 994	4 203
Interest income	64 489	64 831
Total	**70 483**	**69 034**

The income described above relates to held to maturity and available for sale investments.

Net result from financial liabilities measured at amortized cost

	For the year ended 31 December 2015	For the year ended 31 December 2014
Interest expenses – total cost of interest on financial liabilities not measured at the fair value through profit or loss	-694 572	-773 337
Commission expenses – fees and commissions on loans received	-298	-681
Total	**-694 870**	**-774 018**

37. Fair value of assets and liabilities

The main assumptions and methods used by the Bank to measure the fair value of financial instruments are presented below:

- fair value of loans and advances to banks, granted on the interbank market to manage Bank's liquidity, was estimated as the present value of future cash flows discounted with current interbank interest rate for currency in which the loan had been granted,
- fair value of loans to customers was estimated with a model based on present value of future cash flows discounted with current interest rate including current risk margin and adjusted repayment dates resulting from loan agreements. The current margins were selected depending on both currency and major product groups, i.e. fixed term loans, consumer loans and mortgage loans,

Notes to the statement of financial position (cont.)

based on transactions from the period of 12 months. Currency mortgage loans value does not include risk of currency conversion,

- securities held to maturity (Treasury bonds and NBP money bills) – fair value of securities, for which there is an active market, was determined based on public quotations from the active market (market quotations as at the balance sheet date),
- fair value of amounts due to customers was estimated based on average current market interest rates offered by the Bank with margin charge included. The margins were selected depending on both currency and major product groups, i.e. fixed term loans, consumer loans and mortgage loans,
- fair value of amounts due to banks and other monetary institutions, taken on the interbank market to manage Bank's liquidity, was estimated based on the present value of future cash flows discounted with current interbank interest rate for currency in which the loan or deposit had been taken,
- fair value of debt securities issued was estimated with a model based on market price of the securities and the issuer's rating,
- fair value of "Cash and balances with Central Bank", "Other financial assets" and "Other financial liabilities" is set as their book value.

The methods for determining the fair value of the individual financial assets and liabilities measured at the fair value in the statement of financial position, together with the valuation models assigned to them, can be classified into three levels in the fair value hierarchy:

- *Level I* – financial assets and liabilities measured directly on the basis of prices quoted on an active market or with the use of valuation techniques based solely on market information. The mark-to-market valuation is used mainly with respect to listed securities.
- *Level II* – financial assets and liabilities measured with the use of valuation techniques based on assumptions developed on the basis of market observations or information from an active market. The mark-to-model valuation uses parameterization of models solely on the basis of quotations from an active market for a given type of instrument. Most derivative instruments, including forward transactions in securities, non-liquid treasury securities or securities issued by a central bank, as well as unlisted corporate debt securities and municipal securities, for the valuation of which data is collected from an active market are valued using this type of models.
- *Level III* – financial assets and liabilities measured on the basis of valuation techniques commonly used by market participants, whose assumptions are not based on information obtained from an active market. The mark-to-model valuation uses partial model parameterization based on estimated risk factors. This method is applicable to non-linear derivatives concluded on an inactive

Notes to the statement of financial position (cont.)

market, unlisted corporate debt securities, which do not meet the criteria for being classified as Level II, as well as derivatives whose fair value was adjusted for write-downs in respect of credit risk.

A transfer between categories occurs, when a change in valuation model of an asset or a liability requires a reclassification to a different category. The Bank assesses the valuation models at the end of the reporting period.

Financial assets categorized within Level III of fair value hierarchy were characterized by the following estimated parameters:

- credit spread estimated for the day of issue of a security. Credit spread for financial instruments categorized within Level III measured between 30 and 600 base points;
- probability of default indicator (PD). As at the day of financial statements the PD indicator for financial instruments categorized within Level III measured between 3.02% and 100%, while 100% applied to contracts of three customers with recognized impairment;
- loss given default indicator (LGD) measured between 37% and 61%.
- parameter of recovery rate (RR) measured between 39% and 63%.

The effect of estimated parameters on fair value calculation of financial instruments within Level III, which are measured to fair value in the statement of financial position as at 31 December 2015, was negligible. For debt securities being exposed to credit spread risk the estimated exposure vulnerability to credit spread fluctuation of +/- 100 bps amounted to + 250/ - 258 PLN thousand impact on financial result from profit and loss account and + 1 267/ -1 297 PLN thousand impact on equity. For derivative financial instruments being subject to credit risk the estimated exposure vulnerability to probability of default fluctuation of +/- 100 bps amounted to +/- PLN 9 thousand change in profit or loss. No impact on equity.

Changes in financial instruments, which were categorized within Level III of fair value hierarchy, and in Bank's balance sheet measured at fair value, are presented in the table below.

Notes to the statement of financial position (cont.)

For the year ended 31 December 2015	Financial assets held for trading	Derivative financial instruments - assets	Investment securities available for sale - debt securities	Derivative financial instruments - liabilities
Balance at the beginning of the year	**165 257**	**212**	**351 436**	**96**
Increases, including:	86 869	9 700	134 083	6
Purchase	86 869	0	110 117	0
Derivatives opened during year	0	93	0	7
Income from financial instruments, included in:	0	0	23 966	0
Net interest income	0	0	328	0
Revaluation reserves	0	0	23 638	0
Reclassification	0	9 607	0	0
Decreases, including:	-160 220	-85	-165 549	-95
Settlement/redemption	0	-29	0	-96
Sale	-75 994	0	-84 018	0
Loss from financial instruments, included in:	-84 225	-55	-81 530	0
Net interest income	-321	0	-651	0
Net income from financial instruments measured at fair value	-83 904	-55	0	0
Revaluation reserves	0	0	-80 879	0
Balance at year end	**91 907**	**9 828**	**319 970**	**7**
Unrealized result on financial instruments held in the portfolio at the end of the year, included in statement of comprehensive income in:	**-83 162**	**9 616**	**-54 763**	**-89**
Net interest income	742	0	2 478	0
Net income from financial instruments measured at fair value	-83 904	9 616	0	-89
Revaluation reserves	0	0	-57 242	0

Notes to the statement of financial position (cont.)

For the year ended 31 December 2014	Financial assets held for trading	Derivative financial instruments - assets	Investment securities available for sale - debt securities	Derivative financial instruments - liabilities
Balance at the beginning of the year	**67 995**	**13 713**	**48 300**	**37**
Increases, including:	101 449	242	341 978	69
Purchase	101 449	0	107 926	0
Derivatives opened during year	0	29	0	69
Income from financial instruments, included in:	0	30	14	0
Net income from financial instruments measured at fair value	0	30	14	0
Reclassification	0	183	234 038	0
Decreases, including:	-4 187	-13 743	-38 844	-10
Settlement/redemption	0	-9 537	0	-22
Sale	0	0	-38 080	0
Loss from financial instruments, included in:	-4 187	0	-764	27
Net interest income	0	0	-18	0
Net income from financial instruments measured at fair value	-4 187	0	-746	27
Reclassification	0	-4 205	0	-15
Balance at year end	**165 257**	**212**	**351 435**	**96**
Unrealized result on financial instruments held in the portfolio at the end of the year, included in statement of comprehensive income in:	**-3 422**	**-13 501**	**2 729**	**59**
Net interest income	765	1	3 461	0
Net income from financial instruments measured at fair	-4 187	-13 502	0	59
Revaluation reserves	0	0	-732	0

Level III comprises fair value of capital shares in Visa Europe which were classified as securities available for sale. The details concerning calculation of these shares fair value are presented in Note 17 to the financial statements.

The table below presents fair values and book values of assets and liabilities split between levels of fair value hierarchy.

Notes to the statement of financial position (cont.)

Position description	31 December 2015					31 December 2014				
	Book value	Fair value	Level I	Level II	Level III	Book value	Fair value	Level I	Level II	Level III
Financial Assets										
Cash and balances with Central Bank	2 703 510	2 703 510	0	0	2 703 510	2 683 875	2 683 875	0	0	2 683 875
Amounts due from banks	1 204 249	1 204 337	0	0	1 204 337	628 385	628 720	0	0	628 720
Financial assets held for trading	12 570 410	12 570 410	332 391	12 146 112	91 907	361 623	361 623	196 366	0	165 257
Derivative financial instruments:	562 385	562 385	0	552 557	9 828	900 213	900 213	0	900 001	212
Derivative financial instruments held for trading	553 828	553 828	0	544 000	9 828	898 892	898 892	0	898 680	212
Derivative financial instruments in cash flow hedges	8 557	8 557	0	8 557	0	1 320	1 320	0	1 320	0
Investment securities:	3 827 055	3 796 154	3 395 290	0	400 864	12 514 086	12 513 604	2 435 627	9 699 462	378 516
Investment securities held to maturity	1 964 957	1 934 056	1 934 056	0	0	11 451 014	11 450 532	1 751 071	9 699 462	0
Investment securities available for sale, including:	1 862 098	1 862 098	1 461 233	0	400 864	1 063 072	1 063 072	684 556	0	378 516
Equity interests	80 895	80 895	0	0	80 895	27 081	27 081	0	0	27 081
Debt securities	1 781 203	1 781 203	1 461 233	0	319 970	1 035 991	1 035 991	684 556	0	351 435
Loans and advances to customers, including:	33 689 146	31 400 096	0	0	31 400 096	34 716 952	32 216 652	0	0	32 216 652
Individuals customers	19 202 502	16 878 760	0	0	16 878 760	18 058 044	15 598 486	0	0	15 598 486
Micro customers	2 416 760	2 265 087	0	0	2 265 087	2 326 835	2 163 137	0	0	2 163 137
Large enterprises	10 808 023	10 987 794	0	0	10 987 794	13 241 176	13 365 164	0	0	13 365 164
SME	1 240 278	1 246 767	0	0	1 246 767	1 061 253	1 060 327	0	0	1 060 327
Public sector	21 583	21 689	0	0	21 689	29 644	29 538	0	0	29 538
Other financial assets	171 618	171 618	0	0	171 618	128 502	128 502	0	0	128 502
Total financial assets	**54 728 373**	**52 408 511**	**3 727 681**	**12 698 669**	**35 982 160**	**51 933 636**	**49 433 189**	**2 631 993**	**10 599 462**	**36 201 735**

Notes to the statement of financial position (cont.)

Position description	31 December 2015					31 December 2014				
	Book value	Fair value	Level I	Level II	Level III	Book value	Fair value	Level I	Level II	Level III
Financial liabilities										
Amounts due to banks and other monetary institutions	7 935 995	7 880 574	0	0	7 880 574	11 242 801	11 017 449	0	0	11 017 449
Derivative financial instruments:	1 478 611	1 478 611	0	1 478 604	7	1 124 388	1 124 388	0	1 124 292	96
Derivative financial instruments held for trading	503 864	503 864	0	503 857	7	823 807	823 807	0	823 711	96
Derivative financial instruments in cash flow hedges	954 211	954 211	0	954 211	0	276 005	276 005	0	276 005	0
Derivative financial instruments in fair value hedges	20 536	20 536	0	20 536	0	24 576	24 576	0	24 576	0
Amounts due to customers, including:	38 754 180	39 180 293	0	0	39 180 293	33 764 529	33 581 191	0	0	33 581 191
Individuals customers	17 512 927	17 657 546	0	0	17 657 546	14 011 515	13 942 773	0	0	13 942 773
Micro customers	1 957 634	1 962 201	0	0	1 962 201	1 733 592	1 729 937	0	0	1 729 937
Large enterprises	15 629 555	15 888 034	0	0	15 888 034	15 194 626	15 093 148	0	0	15 093 148
SME	3 654 064	3 672 513	0	0	3 672 513	2 824 797	2 815 333	0	0	2 815 333
Subordinated liabilities	724 789	519 133	0	0	519 133	320 006	308 651	0	0	308 651
Liabilities from debt securities issued	501 825	501 892	0	0	501 892	501 960	501 960	0	0	501 960
Other financial liabilities	281 707	281 707	0	0	281 707	241 008	241 008	0	0	241 008
Total financial liabilities	**49 677 107**	**49 842 210**	**0**	**1 478 604**	**48 363 606**	**47 194 692**	**46 774 646**	**0**	**1 124 292**	**45 650 354**

Other explanatory notes

38. Offsetting of financial assets and liabilities

In 2015 and 2014 offsetting criteria were not fulfilled, therefore there were no cases of financial assets and liabilities offset on the balance sheet dates.

However, in order to minimalize credit risk losses, the Bank concludes master netting arrangements or similar agreements. The clauses of these agreements provide right for net settlement only in case of default, insolvency, bankruptcy or when a counterparty in unable to meet its obligations.

Master netting arrangements concluded by the Bank contain:

- ISDA agreements or other based on a local law
- repo and reverse repo agreements.

Disclosures presented in the tables below refer to financial assets and liabilities subject to master netting arrangements or similar and may be potentially compensated in the statement of financial position. Additionally, received and pledged cash collaterals for derivative and repo/reverse repo transactions were shown. They were established according to standard sector conditions. Collaterals in the form of cash deposits result from Credit Support Annex (CSA) or similar agreements, annexed to ISDA framework agreements or other based on local law.

31 December 2015	Gross amount of recognised financial assets	Net amount of financial assets presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collateral received	
FiNANCIAL ASSETS					
Derivative financial instruments	562 385	562 385	379 620	30 840	171 495
Reverse repurchase securities agreements	40 429	40 429	40 209	0	220
Total	**602 814**	**602 814**	**419 829**	**30 840**	**171 715**

31 December 2015	Gross amount of financial recognised liabilities	Net amount of financial liabilities presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collaterals pledged	
FINANCIAL LIABILITIES					
Derivative financial instruments	1 478 611	1 478 611	379 620	1 056 946	51 541
Total	**1 478 611**	**1 478 611**	**379 620**	**1 056 946**	**51 541**

Other explanatory notes (cont.)

31 December 2014	Gross amount of recognised financial assets	Net amount of financial assets presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collateral received	
FiNANCIAL ASSETS					
Derivative financial instruments	900 213	900 213	530 091	44 590	333 506
Reverse repurchase securities agreements	1 651 297	1 651 297	1 631 976	0	19 321
Total	**2 551 510**	**2 551 510**	**2 162 067**	**44 590**	**352 827**

31 December 2014	Gross amount of financial recognised liabilities	Net amount of financial liabilities presented in the statement of financial position	Related amount not offset in the statement of financial position		Net amount*
			Financial instruments	Cash collaterals pledged	
FINANCIAL LIABILITIES					
Derivative financial instruments	1 124 388	1 124 388	530 091	496 249	98 048
Repurchase securities agreements	1 622 646	1 622 646	1 603 473	0	19 173
Total	**2 747 034**	**2 747 034**	**2 133 564**	**496 249**	**117 221**

**based on calculation per contract*

Reconciliation of carrying amounts of financial assets and liabilities subject to master netting arrangements or similar agreements to the individual line item amounts presented in the statement of financial position:

31 December 2015	Net carrying amount	Financial statement positions of financial condition	Carrying amount of financial statement	Carrying amount of non disclosure items in offsetting note
FiNANCIAL ASSETS				
Derivative financial instruments	562 385	Derivative financial instruments assets	562 385	0
Reverse repurchase securities agreements	40 429	Loans and advances to customers	33 689 146	33 648 717
FINANCIAL LIABILITIES				
Derivative financial instruments	1 478 611	Derivative financial instruments liabilities	1 478 611	0

Other explanatory notes (cont.)

31 December 2014	Net carrying amount	Financial statement positions of financial condition	Carrying amount of financial statement position	Carrying amount of non disclosure items in offsetting note
FINANCIAL ASSETS				
Derivative financial instruments	900 213	Derivative financial instruments assets	900 213	0
Reverse repurchase, securities agreements	1 651 297	Loans and advances to customers	34 716 952	33 065 655
FINANCIAL LIABILITIES				
Derivative financial instruments	1 124 388	Derivative financial instruments liabilities	1 124 388	0
Repurchase, securities agreements	1 413 968	Amounts due to banks and other monetary institutions	11 242 801	9 828 833
	208 678	Amounts due to customers	33 764 529	33 555 851

39. Transactions with related parties

The Bank identifies the following related entities:

- Parent entities:
  - ultimate parent entity – Raiffeisen Zentralbank Österreich AG (RZB).
  - parent entity – Raiffeisen Bank International AG (RBI).
- The Bank's consolidated subsidiaries – Raiffeisen-Leasing Polska S.A., Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o., Raiffeisen Financial Services Polska Sp. z o.o., Raiffeisen Solutions Sp z o.o, Raiffeisen-Leasing Real Estate Sp z o.o, Raiffeisen Investment Polska Sp. z o.o., Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A. Related party not consolidated - Leasing Poland Sp. z o.o.,
- Members of the Bank's key personnel and the key personnel of the parent entities,
- Other entities - other related entities – entities controlled by the parent entities and subsidiaries, and entities having significant influence on Raiffeisen Zentralbank Österreich AG.

As a part of ordinary operations, a number of transactions was concluded with members of the Bank's key personnel. The Bank's key personnel includes members of Bank's Management Board and members of the Bank's Supervisory Board, listed in Note 1 to the financial statements. Transactions with members of the Bank's key personnel can comprise mainly loans, deposits and foreign currency transactions. In 2015 and 2014 no transactions were concluded with members of the key personnel of the Bank's Parent Entities or with persons related to the members of the Bank's key personnel or the Parent Entities' key personnel.

Other explanatory notes (cont.)

Statement of financial position items	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entities' key personnel		Other related entities	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Amounts due from banks	1 030 443	476 186	0	0	0	0	9 398	59 203
Derivative financial instruments (assets)	370 810	586 962	370	16	0	0	401	166
Loans and advances to customers	0	0	18 493	1 979	2 300	3 253	0	0
Other assets	97	101	137	15	0	0	522	6
Amounts due to banks and other monetary institutions	5 744 774	7 200 787	0	0	0	0	1 512 387	805 812
Derivative financial instruments (liabilities)	1 400 241	976 123	0	89	0	0	99	471
Amounts due to clients	0	0	1 026 487	913 429	4 574	7 312	15 482	6 019
Subordinated liabilities	724 789	320 006	0	0	0	0	0	0
Other liabilities	169	16 432	361	84	0	0	217	0
Provision for liabilities and charges	2 433	1 798	0	0	4 000	0	0	0

Statement of profit and loss items	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entities' key personnel		Other related entities	
	For the year ended 31 December 2015	For the year ended 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2014
Interest income	25 298	112 969	5 528	32	49	227	803	1 107
Interest expenses	-79 395	-140 622	-4 947	-4 650	-19	-15	-18 966	-5 106
Net provisioning for impairment losses on financial assets and provisions for off-balance	0	0	-1 126	-14 677	0	0	0	0
Commission income	1 658	2 294	269	142	2	0	4 199	2 011
Commission expenses	-1 449	-1 223	-257	-311	0	0	-2 121	-723
Net income from financial instruments measured at fair value and net foreign exchange result	147 047	-36 245	360	7	6	0	-606	-181
Income from dividend	0	0	40 900	42 956	0	0	0	0
General administrative expenses	-19 017	-42 290	-15 053	-16 781	11 590	10 214	-6 465	-6 667
Other operating income	445	9 671	2 058	1 226	0	0	0	0
Other operating expenses	0	0	0	-165	0	0	0	0

Other explanatory notes (cont.)

Contingent liabilities	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entities' key personnel		Other related entities	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Guarantees and letters of credit	154 779	179 288	1 435	2 567	0	0	22 172	20 373
Financial liabilities granted	0	0	81 822	986	0	0	0	0
Guarantees received	165 192	196 808	33 000	0	0	0	73 086	54 461

Other explanatory notes (cont.)

Transactions with the Bank's Parent Entity are aimed at providing financing for the Bank's operations (mainly interbank deposits, loans received and subordinated loans) and closing of open positions resulting from derivative transactions. As a result, interest expenses, net income from financial instruments and general administrative expenses were recognized in the statement of profit or loss.

For guarantees and letters of credits relate to the Bank guarantee liabilities issued on other Group banks request, for guarantees received relate to guarantees of repayment of loans taken in the Bank or re-guarantees received from other banks and relating to guarantees issued by the Bank.

The costs of settlements with members of the Bank's key personnel for the financial year comprise remuneration:

Remuneration of members of the Bank's key personnel	For the year ended 31 December 2015	For the year ended 31 December 2014
Remuneration of the Management Board (salary)*	9 567	8 106
Remuneration of the Supervisory Board	2 023	2 108
Remuneration connected with employment termination **	0	1 700
Variable remuneration of the Management Board paid in the current year ***	4 652	6 832
Total	**16 242**	**18 746**

* concerns Members of the Management Board who hold the function actively

** including remuneration of Members of the Management Board for the period after release from active holding the of the function and unused holiday payment

*** variable remuneration for the period before current reporting period

Members of the Management Board signed a non-compete clause due upon termination of their contracts. Non-compete clause duration ranges maximum to 12 months, counting from the end of the notice period. Throughout that period remuneration equal to the last basic salary before the termination of the contract is paid. The Bank may waive the non-compete clause within 30 days of the termination of the contract.

40. Events after the reporting date

The Act on tax on certain financial institutions

The Act on tax on certain financial institutions was announced on 15 January 2016. As far as the Bank is concerned the basis of taxation will be the excess of sum of assets above the amount PLN 4 billion decreased by among others equity and assets in the form of Treasury securities established as at the last month's day. The tax will equal 0,0366% of taxation basis per month. The Act has come into force on 1 February 2016, the first period for which the Bank will pay the tax is February 2016. The Bank preliminary estimated, based on data as at 31 December 2015, that the monthly burden resulting from the tax will equal PLN 15,6 million.

Other explanatory notes (cont.)

Polish president's draft bill presenting methods to restore equality between the parties of certain loan agreements

In January 2016 the Polish president put forward a draft bill presenting methods to restore equality between parties to certain loan agreements, i.e. support for borrowers with currency mortgage loans. The proposal is undergoing consultations, and may be subject to major changes.

The analysis of the draft impact on the financial statements of the Bank in following periods require, among others information on final solutions defined in the draft bill, which is not available before consultation phase on the draft is closed. Due to the above fact presented above, an analysis, the impact of the draft bill on the Bank's financial statements could not be finalized at the moment of publication of these financial statements.

If the draft bill comes into force in the proposed form, it could have a significant negative impacts on Bank's capital standing, taking into account Bank's significant portfolio of mortgage CHF loans.

The Act on Macro-Prudential Supervision over the Financial System

As of the beginning of 2016, under the Act on Macro-Prudential Supervision over the Financial System, the Bank is required to maintain a capital conservation buffer amounting to 1.25 percentage points of its total risk exposure. Starting from 1 January 2016 the Bank is required to maintain a total capital ratio at 15.33%, the Bank by the approval date of these financial statements did not maintain required total capital ratio.

The Bank has undertaken the actions in order to increase the total capital ratio of the Bank in 2016.

Plans to sell 100% of shares in subsidiary

In 2016, the Management Board of the Bank undertook and conducts negotiations with Raiffeisen Bank International AG relating to sale of 100% shares of Raiffeisen-Leasing Polska S.A. ("RLPL"). The Bank expects to finalize the shares sale by the end of March 2016. Assuming the transaction is finalized, the Bank would lose control over RLPL and other companies of RLPL Group, i.e. Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Services Sp. z o.o., Raiffeisen-Leasing Real Estate Sp. z o.o. and special purpose entity ROOF Poland 2014 Ltd.

Risk management

41. The nature and scope of risk associated with financial instruments

In its activity, the Bank follows an active approach to the risk management, involving its identification, measurement, monitoring and mitigation. The Bank follows the principle that an effective risk management and control system is based on three major elements:

- the organizational structure, with a segregation of duties and competences, including a clear indication of functions performed by specific organizational units in the risk management and control process,
- the methods for monitoring, measurement and estimation of risk, which are necessary for the Bank to correctly identify the risks undertaken,
- actions focused on using modern techniques for hedging and transferring risks in order to adjust the type and profile of the risks undertaken by the Bank to the risk appetite described in the adopted strategic plans.

Organizational structure

The basic assumption adopted in the construction of the risk management and control system is to separate units controlling the risk from business units, i.e. the units that undertake risks. This is reflected in the Bank's organizational structure. Risk management and risk control constitute a process, which is carried out at three basic levels:

1. Decisions made by the Bank's Supervisory Board and Management Board through the system of risk committees:
   a) The Asset-Liability Committee, which is mainly responsible for:
      - managing the Bank's assets and liabilities;
      - development and acceptance of strategic plans in the area of balance sheet management from the products and prices perspective;
      - assessment of interest rate risk, liquidity and financing risk, foreign exchange risk and capital adequacy risk, as well as management of such risks;
      - observing the external environment and measuring its effect on profitability and capital;
      - determining the investment portfolio parameters;
      - managing the economic capital allocation.

Risk management (cont.)

b) The Operational Risk Steering Committee, which is responsible for:

- management of operational risk issues within the Bank, including issues relating to safety and security, in order to reduce operational risk exposure and the size of operating losses;
- promoting economic profit by improving the safety and quality of the bank's processes;
- supervision over the process of planning the continuity of the Bank's operations;
- ensuring compliance with legal acts, rules and regulations of the government, the Central Bank and other regulators.

c) The Credit Portfolio Risk Steering Committee, performing mainly the tasks related to:

- development and implementation of the policies and strategies for credit risk management;
- regular monitoring of the loan portfolio risk;
- analysis of the effect of external factors on the loan portfolio risk;
- supervision over the process of calculation, estimation and validation of risk parameters.

d) Bank Credit Committee, which is responsible for making lending decisions, within the scope of the assigned competencies.

e) Problematic Loan Committee is a part of problematic loan exposures management and is treated as a decision making body for those kinds of exposures.

f) The Models Validation Committee is responsible for managing the model risk and for the methodological aspects of the risk management system. It performs its function by supervising:

- creation, development (changes) and maintenance of models used in the Bank to measure risks;
- the process for evaluating the quality of the models used;
- the process for estimating parameters and calculating risk measures;
- the system for capital adequacy assessment (ICAAP);
- it also ensures regulatory compliance in the area of capital adequacy assessment, model's risk measuring processes, models and methodologies.

Risk management (cont.)

2. Control performed by the Risk Management Department and Corporate Credit Risk Management Department.
3. Operational risk management – performed on the level of individual organizational units risk taking.

The principles for managing individual risks are implemented based on written strategies, policies and procedures.

Capital management process

The main objective of capital management process is to maintain stable capital adequacy in the long term by ensuring a proper process of identification, measurement, monitoring, mitigation and capital risk reporting.

Regulatory requirements in respect of capital adequacy is total capital ratio defined in article 92 par. 1 point c of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013.

Moreover since October 2015 the Bank was obliged by Financial Supervision Authority to maintain an additional capital adequacy to cover risk resulting from portfolio of currency mortgage loans equal to 2.08 p.p. Therefore the total capital ratio should maintained at a level not lower than 14.08%.

The Bank calculated the capital adequacy ratios based on the regulations mentioned above.

The minimal level of total capital ratio of the Bank was stated in the Capital Plan for year 2015 and determined on the level of 12.49%, which was maintained throughout the entire year.

The amounts of regulatory capital and capital requirement determined for the purposes of calculating the total capital ratio were as follows:

	Method of calculating the requirement	As at 31 December 2015	As at 31 December 2014
Credit and counterparty risk	Standard	2 733 462	2 746 648
Market risk	Standard	40 291	65 128
Operational risk	Standard	289 818	302 798
Regulatory capital requirements		**3 063 571**	**3 114 574**
Own funds		**5 724 042**	**5 424 071**
Total capital ratio		**14,95**	**13,93**

The main source of own funds to cover the capital requirements is Tier I capital (core capital), which is supplemented with subordinated liabilities (Tier II capital). Tier I capital amounted to PLN 5 475 202 thousand at the end of 2015 (PLN 5 153 885 thousand as at the end of 2014), and Tier II capital amounted to PLN 248 840 thousand (PLN 270 187 thousand as at the end of 2014). The only major change in the amount of own funds during the year 2015 was: including in the own funds result from the year 2014 in the amount PLN 314 138 thousand.

Risk management (cont.)

In 2015 the Bank complied with the regulatory requirements in respect of the total capital ratio.

Economic capital calculation

Economic capital is defined as capital with a purpose of covering unexpected losses the Bank incurs or may incur as a result of realization of risks that occur in Bank's operations or in its economic environment. The Bank carries out the process of internal capital assessment and reviews the process itself in compliance with Polish FSA (KNF) Resolution No. 258/2011 on Detailed Principles of Functioning of the Risk Management System (...) and Detailed Conditions of Internal Capital Assessment by Banks and of Reviewing the Process of Internal Capital.

The results of the process are reported to relevant Bank committees. The methodology for internal capital assessment is reviewed annually and updated both in terms of identification of risk types and the applied methodology. Both the Management Board and Supervisory Board of the Bank are informed about the results of the review.

Economic capital is calculated based on the main types of risk the Bank is exposed to, namely: credit risk, operational risk, liquidity risk, interest rate risk and currency risk. For the remaining identified types of risk, which are considered material, the Bank periodically evaluates the risk levels and acts upon results to control the risk. Additionally, based on an internal model for risks difficult to measure, the Bank calculates a capital buffer added to the total of economic capital.

Aggregation of the results of the individual models is based on the Gaussian copula. Economic capital is calculated as a difference between value at risk (assuming a confidence level of 99.95% and a period of one year) and the reserves held for risks included in the calculation.

42. Credit risk

Credit risk is the possibility to incur a loss due to a debtor not meeting the terms of the agreement.

The aim of credit risk management is to increase the safety of the Bank's lending activity by ensuring the highest quality of credit risk assessments and effectiveness of the decision-making process, as well as an effective credit exposure monitoring with regard to the individual customers and the Bank's loan portfolio.

With respect to individual customers, the Bank monitors their economic and financial situation, loan history, collateral provided and capital and organizational relations. The procedures implemented and modified in this area are aimed at identifying exposures and taking actions that are adequate to changes in the risk levels.

Credit risk monitoring on the portfolio level includes preparing regular, periodical analysis of the Bank's loan portfolio, which ensures identification of adverse trends and concentrations, as well as performing ad hoc portfolio reviews, mainly in connection with changes in the external environment.

Risk management (cont.)

Credit risk monitoring procedures applied by the Bank also include the principles for monitoring of collaterals and their periodical reviews. The scope and frequency of these reviews depends on the type of collateral and covers: collateral's value and its changes, the correctness, completeness and validity of documents associated with the collateral as well as insurance documents for collaterals (a review of insurance policies, payment schemes, validity dates).

The Bank's exposure to credit risk arises mainly from its lending activity and, to a lesser extent, from the sales and operations on the trading portfolio, derivative instruments and participation in payment transactions and settlements of securities on Bank's own account and its customers' accounts.

The Bank applies internal procedures that allow determining the level of credit risk associated with granting a given customer a loan or providing other services bearing credit risk, as well as the level of risk acceptance. Implementation and modification of procedures in this area aims at both identifying and acting accordingly to the changing risk.

The Bank supports a clear and transparent system of lending competences based on the multi-level system of credit committees with various, clearly defined competences. Each and every person involved in the decision-making process is responsible for the risk and return on transactions which are subject to their decisions.

In order to ensure independence of the credit risk assessments and quality of Bank's loan portfolio, a clear division of responsibilities between business units and risk units has been introduced.

Business units are responsible for the management of individual credit exposures.
Risk management units are responsible for monitoring of risk of Bank's entire loan portfolio and, as part of their duties, for performing, among others, the following functions:

- implementation of lending strategies, policies and procedures;
- ensuring proper application of credit process standards approved by the Bank;
- monitoring of credit risk provisions levels,
- managing the portfolio of non-performing loans.

Before concluding a loan agreement, the Bank makes an assessment of the customer's creditworthiness. Assessment of a customer is supported by the rating and scoring systems used by the Bank. These systems constitute an important element of credit risk management within the Bank.

In case of corporate customers, a customer's creditworthiness is assessed based on a rating system to classify the customer into one of the rating categories. The rating category is determined on the basis of an analysis of quantitative factors (annual and interim financial statements), qualitative factors, and additional warning signals. The rating category affects determination of standard risk costs and is an important parameter in Bank's portfolio management.

Risk management (cont.)

The Bank also estimates the risks associated with the purpose of the loan and customer's ability to service debt, in particular based on financial surpluses generated by the customer. The Bank grants loans to customers characterized by high creditworthiness.

Retail customers' creditworthiness is assessed with the use of scoring cards. The Bank grants loans to customers characterized by high creditworthiness. However, in order to reduce potential losses resulting from debt not being serviced, the Bank strives to conclude collateral agreements, in particular, with regard to long-term loans.

Actions undertaken in respect of collateral, including establishing collateral that will ensure the highest possible level of recovery in the event of debt collection, are meant to properly secure Bank's interests. Therefore, collateral established for loans serviced on a timely basis and overdue loans or impaired and not impaired loans, maintains the same quality. The policies regarding legal collateral are part of the internal regulations of the Bank.

The Bank accepts the following collaterals in its credit process:

- residential real estate mortgage,
- commercial real estate mortgage,
- registered pledge,
- pledged deposit,
- cash blocked on a bank account,
- bank guarantee,
- BGK guarantee,
- sovereign or municipal guarantee,
- corporate guarantee,
- suretyship,
- transfer of ownership as a security,
- assignment of receivables,
- bill of exchange,
- loan insurance,
- authorization to manage a bank account.

Discounted value of recoveries from collateral for the portfolio of loans and advances in which impairment allowance is recognized based on an individual analysis of future cash flows relating to repayment and recovery from collaterals amounted to PLN 661 927 thousand (2014: PLN 761 774 thousand).

The Bank maintains close control over net open positions of derivative instruments, i.e. the differences between the call and put contracts, in terms of both their amount and maturity. At any time, the amount

Risk management (cont.)

subject to credit risk is limited to the present fair value of instruments with positive fair value (i.e. assets), which in case of derivative instruments constitutes a small fraction of contract's value or the nominal values used to express the volume of existing instruments.

Exposure to credit risk on derivative instruments is managed as a part of the general credit limits for customers, together with the potential exposure to risk resulting from market changes.

Valuation techniques used by the Bank for derivative financial instruments are usually based on maximum use of input data originating from active markets, including: interest rates, foreign exchange rates and implicit volatilities. In the absence of appropriate input from an active market, the Bank usually utilizes its own estimations of parameters necessary for pricing purposes based on Bank's best knowledge and experience.

The main purpose of contingent liabilities is to ensure availability of funds as they are required. Those liabilities are related to the unused portion of loans, guarantees and letters of credit granted.

With respect to the credit risk on granted loan commitments, the Bank is exposed to potential losses equal to the total amount of granted loan commitments. The likely loss is lower however than the entire amount of unused loan commitments based on the fact that the majority of those commitments depends on borrowers meeting certain credit criteria. The Bank monitors periods of validity of its granted loan commitments, because credit risk is generally higher the longer the period.

Guarantees and letters of credit, which constitute Bank's irrevocable commitments to pay client's third party liabilities in an event that the client is unable to pay, are subject to the same credit risk as loans.

Risk management (cont.)

As at 31 December 2015	Financial assets presented in the statement of financial position							
Classes of exposure with instrument types assigned to them	amounts due from banks	cash and balances with the Central Bank	trading assets	derivatives	investment securities	loans and advances	other	**Total**
Cash and cash equivalents	**0**	**1 067 024**	**0**	**0**	**0**	**0**	**0**	**1 067 024**
Exposures to governments and central banks	**0**	**1 636 486**	**12 478 504**	**3 643**	**3 426 190**	**0**	**0**	**17 544 823**
Cash and balances with the Central Bank	0	1 636 486	0	0	0	0	0	**1 636 486**
Treasury bonds and bills	0	0	332 392	0	3 426 190	0	0	**3 758 582**
NBP bills	0	0	12 146 112	0	0	0	0	**12 146 112**
Derivative financial instruments	0	0	0	3 643	0	0	0	**3 643**
Exposures to banks	**1 204 249**	**0**	**69 051**	**394 106**	**16 262**	**0**	**0**	**1 683 669**
Cash on current and term accounts with other banks	1 147 869	0	0	0	0	0	0	**1 147 869**
Loans and advances granted to other banks	56 380	0	0	0	0	0	0	**56 380**
Derivative financial instruments	0	0	0	394 106	0	0	0	**394 106**
Corporate bonds	0	0	51 461	0	16 262	0	0	**67 724**
Mortgage backed securities	0	0	17 590	0	0	0	0	**17 590**
Exposures to customers	**0**	**0**	**22 855**	**164 636**	**384 602**	**33 689 146**	**0**	**34 261 239**
Loans and advances granted to individuals	0	0	0	0	0	19 202 502	0	**19 202 502**
Loans and advances granted to micro customers	0	0	0	0	0	2 416 760	0	**2 416 760**
Loans and advances granted to large enterprises	0	0	0	0	0	10 808 023	0	**10 808 023**
Loans and advances granted to small and medium enterprises	0	0	0	0	0	1 240 278	0	**1 240 278**
Loans and advances granted to public sector entities	0	0	0	0	0	21 583	0	**21 583**
Equity investments available for sale	0	0	0	0	80 895	0	0	**80 895**
Derivative financial instruments	0	0	0	164 636	0	0	0	**164 636**
Corporate bonds	0	0	22 855	0	303 708	0	0	**326 562**
Other financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**171 618**	**171 618**
Total	**1 204 249**	**2 703 510**	**12 570 410**	**562 385**	**3 827 055**	**33 689 146**	**171 618**	**54 728 372**

Risk management (cont.)

As at 31 December 2014	Financial assets presented in the statement of financial position							
Classes of exposure with instrument types assigned to them	amounts due from banks	cash and balances with the Central Bank	trading assets	derivatives	investment securities	loans and advances	other	**Total**
Cash and cash equivalents	**0**	**1 757 367**	**0**	**0**	**0**	**0**	**0**	**1 757 367**
Exposures to governments and central banks	**0**	**926 508**	**196 511**	**0**	**12 135 652**	**0**	**0**	**13 258 671**
Cash and balances with the Central Bank	0	926 508	0	0	0	0	0	**926 508**
Treasury bonds and bills	0	0	196 511	0	2 436 191	0	0	**2 632 702**
NBP bills	0	0	0	0	9 699 462	0	0	**9 699 462**
Exposures to banks	**628 385**	**0**	**69 411**	**708 231**	**0**	**0**	**0**	**1 406 028**
Cash on current and term accounts with other banks	599 995	0	0	0	0	0	0	**599 995**
Loans and advances granted to other banks	28 390	0	0	0	0	0	0	**28 390**
Derivative financial instruments	0	0	0	708 231	0	0	0	**708 231**
Corporate bonds	0	0	47 069	0	0	0	0	**47 069**
Mortgage backed securities	0	0	22 343	0	0	0	0	**22 343**
Exposures to customers	**0**	**0**	**95 700**	**191 982**	**378 434**	**34 716 952**	**0**	**35 383 068**
Loans and advances granted to individuals	0	0	0	0	0	18 058 044	0	**18 058 044**
Loans and advances granted to micro customers	0	0	0	0	0	2 326 835	0	**2 326 835**
Loans and advances granted to large enterprises	0	0	0	0	0	13 241 176	0	**13 241 176**
Loans and advances granted to small and medium enterprises	0	0	0	0	0	1 061 253	0	**1 061 253**
Loans and advances granted to public sector entities	0	0	0	0	0	29 644	0	**29 644**
Equity investments available for sale	0	0	0	0	27 081	0	0	**27 081**
Derivative financial instruments	0	0	0	191 982	0	0	0	**191 982**
Corporate bonds	0	0	31 893	0	351 353	0	0	**383 246**
Bonds convertible to shares	0	0	63 808	0	0	0	0	**63 808**
Other financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**128 502**	**128 502**
Total	**628 385**	**2 683 875**	**361 623**	**900 213**	**12 514 086**	**34 716 952**	**128 502**	**51 933 636**

Maximum exposure to credit risk for off-balance sheet amounted to:	**31 December 2015**	**31 December 2014**
Guarantees	1 884 362	2 019 923
Granted loan commitments	8 122 312	4 454 747
Total	**10 006 673**	**6 474 670**

Risk management (cont.)

Loan exposures to banks and clients as well as other financial assets presented in the statement of financial position are regularly tested for impairment (on an individual or group basis). For the purpose of disclosure they are classified to one of the three categories of receivables: unimpaired not-overdue, unimpaired overdue and impaired. The above mentioned assets are presented in the following table by the gross value and by the customer group:

	Exposure amount			
As at 31 December 2015	**analysed on an individual basis**	**analysed on a group basis**	**Total**	**Value of collateral reducing the maximum exposure to credit risk**
Not overdue receivables without identified impairment	**175 518**	**33 703 413**	**33 878 931**	**14 070 204**
Amounts due from Central Bank and other banks	0	2 840 886	2 840 886	13 240
Individual customers	635	17 349 608	17 350 243	9 217 084
Micro customers	3 265	1 853 265	1 856 530	1 062 323
Large enterprises	0	10 410 748	10 410 748	3 406 406
Small and medium enterprises	0	1 227 227	1 227 227	371 151
Public sector	0	21 679	21 679	0
Other financial assets	171 618	0	171 618	0
Overdue receivables without identified impairment	**11 787**	**1 830 988**	**1 842 775**	**930 604**
Amounts due from Central Bank and other banks	0	14	14	0
Individual customers	1 487	1 530 842	1 532 329	726 189
Micro customers	1 132	192 493	193 625	112 931
Large enterprises	9 168	97 317	106 485	82 244
Small and medium enterprises	0	10 322	10 322	9 240
Receivables with identified impairment	**1 215 109**	**1 532 927**	**2 748 036**	**1 009 460**
Individual customers	41 881	892 261	934 142	365 313
Micro customers	47 503	640 666	688 169	367 654
Large enterprises	1 071 381	0	1 071 381	269 544
Small and medium enterprises	50 848	0	50 848	6 949
Other financial assets	3 496	0	3 496	0
Total other financial assets, gross	**1 402 414**	**37 067 328**	**38 469 742**	**16 010 268**
Impairment allowances on amounts due from Central Bank and other banks	**0**	**165**	**165**	**0**
Impairment allowances on loans and advances	**790 270**	**974 312**	**1 764 582**	**0**
Impairment allowances on other financial assets	**3 496**	**0**	**3 496**	**0**
Total other financial assets, net	**608 648**	**36 092 851**	**36 701 499**	**16 010 268**

Risk management (cont.)

As at 31 December 2014	Exposure amount			
	analysed on an individual basis	analysed on a group basis	Total	Value of security reducing the maximum exposure to credit risk
Not overdue receivables without identified impairment	**128 502**	**33 155 631**	**33 284 133**	**14 583 405**
Amounts due from Central Bank and other banks	0	1 555 195	1 555 195	16 123
Individual customers	0	16 128 215	16 128 215	8 962 412
Micro customers	0	1 774 576	1 774 576	1 007 087
Large enterprises	0	12 642 233	12 642 233	4 151 674
Small and medium enterprises	0	1 031 373	1 031 373	446 109
Public sector	0	24 039	24 039	0
Other financial assets	128 502	0	128 502	0
Overdue receivables without identified impairment	**0**	**2 044 648**	**2 044 648**	**1 048 033**
Individual customers	0	1 662 735	1 662 735	785 517
Micro customers	0	219 710	219 710	117 265
Large enterprises	0	139 822	139 822	136 100
Small and medium enterprises	0	16 641	16 641	9 151
Receivables with identified impairment	**1 406 726**	**1 484 417**	**2 891 143**	**1 210 645**
Individual customers	32 818	855 776	888 594	326 663
Micro customers	35 743	628 641	664 384	347 444
Large enterprises	1 258 282	0	1 258 282	519 665
Small and medium enterprises	77 622	0	77 622	16 873
Other financial assets	2 261	0	2 261	0
Total other financial assets, gross	**1 535 228**	**36 684 696**	**38 219 924**	**16 842 083**
Impairment allowances on amounts due from Central Bank and other banks	**0**	**302**	**302**	**0**
Impairment allowances on loans and advances	**826 845**	**990 169**	**1 817 014**	**0**
Impairment allowances on other financial assets	**2 261**	**0**	**2 261**	**0**
Total other financial assets, net	**706 122**	**35 694 225**	**36 400 347**	**16 842 083**

The ageing analysis of overdue assets without identified impairment is presented in the following table.

As at 31 December 2015 Past due financial receivables without identified impairment	Past due for					Total
	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	
Gross loans and advances - past due but not impaired	**1 334 660**	**454 069**	**2 211**	**3 139**	**48 696**	**1 842 775**
Amounts due from Central Bank and other banks	0	2	0	0	12	**14**
Individual customers	1 187 236	339 436	1 403	1 731	2 523	**1 532 329**
Micro customers	128 896	64 555	9	55	110	**193 625**
Large enterprises	16 467	47 612	42	354	42 010	**106 485**
Small and medium enterprises	2 061	2 464	757	999	4 041	**10 322**
Total	**1 334 660**	**454 069**	**2 211**	**3 139**	**48 696**	**1 842 775**

Risk management (cont.)

As at 31 December 2014 Past due financial receivables without identified impairment	Past due for					
	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	Total
Gross loans and advances - past due but not impaired	**1 538 647**	**387 670**	**18 957**	**21 687**	**77 687**	**2 044 648**
Individual customers	1 363 099	294 804	2 963	1 800	69	**1 662 735**
Micro customers	135 774	83 859	7	35	35	**219 710**
Large enterprises	32 102	1 387	14 507	19 091	72 735	**139 822**
Small and medium enterprises	7 672	1 880	1 480	761	4 848	**16 641**
Total	**1 538 647**	**387 670**	**18 957**	**21 687**	**77 687**	**2 044 648**

The following table presents credit quality of receivables neither past due nor impaired from Central Bank, other banks and the Bank's clients, set up based on internal rating models:

- exposure to National Bank of Poland were assigned a rating equal to that of Poland (rating A).
- for banks, branches of foreign credit institutions, financial sector institutions and the public sector with ratings on ten grade scale ranging from A1 to D (where an A rating means minimal credit risk, and a D rating means impairment)

Risk management (cont.)

Credit quality of financial assets neither past due nor impaired	As at 31 December 2015				As at 31 December 2014			
	to governments and central banks	to banks	to the public sector	Total	to governments and central banks	to banks	to the public sector	Total
A	1 636 486	0	0	1 636 486	926 508	0	0	926 508
A3	0	25 590	0	25 590	0	527 820	0	527 820
B1	0	1 117 158	0	1 117 158	0	32 986	0	32 986
B2	0	15 351	10 953	26 304	0	9 023	10 970	19 993
B3	0	7 369	3 976	11 345	0	1 347	4 819	6 166
B4	0	397	6 750	7 147	0	5 634	6 488	12 122
B5	0	0	0	0	0	15 586	1 762	17 348
C	0	36 857	0	36 857	0	3 091	0	3 091
Non-rated exposures	0	1 678	0	1 678	0	33 200	0	33 200
Total	**1 636 486**	**1 204 400**	**21 679**	**2 862 565**	**926 508**	**628 687**	**24 039**	**1 579 234**

- for individual and micro clients ranging from 0.5 to 5.0 (where a rating of 0.5 means minimal risk of failing to repay the loan and a rating of 5.0 means impairment)

Risk management (cont.)

Credit quality of financial assets neither past due nor impaired	As at 31 December 2015			As at 31 December 2014		
	to individuals	to micro customers	Total	to individuals	to micro customers	Total
0.5	8 425 479	14 863	8 440 342	11 538 287	8 045	11 546 332
1.0	1 376 000	92 012	1 468 012	1 338 914	14 755	1 353 669
1.5	1 251 663	354 164	1 605 827	702 856	81 696	784 552
2.0	3 431 375	476 306	3 907 681	881 430	188 531	1 069 961
2.5	1 120 506	270 402	1 390 908	557 295	327 179	884 474
2.5.1	302	149 563	149 865	32	295 554	295 586
3.0	611 640	113 359	724 999	349 571	187 242	536 813
3.0.1	0	107 473	107 473	224	182 790	183 014
3.5	573 546	126 574	700 120	215 172	188 815	403 987
4.0	166 875	73 439	240 314	65 526	112 813	178 339
4.5	70 347	26 801	97 148	27 510	130 618	158 128
4.5.1	19	0	19	1 827	0	1 827
Non-rated exposures	322 491	51 574	374 065	449 571	56 538	506 109
Total	**17 350 243**	**1 856 530**	**19 206 773**	**16 128 215**	**1 774 576**	**17 902 791**

- for corporate clients (including small and medium size enterprises) the Bank uses 28-degrees scale with ratings ranging from 1A to 10C, where 1C rating is assigned to customers with the lowest level of credit risk, 10 A/B/C ratings are assigned to customers who have been considered as insolvent.
- 5 grade scale for project investments with ratings ranging from 6.1 to 6.5 (where 6.1 rating means a minimum risk of default and 6.5 rating means impairment);
- for corporate clients (including small and medium enterprises) are assigned ratings from 0.5 to 5.0 (where 0.5 means minimal risk of failing to repay the loan and a rating of 5.0 means impairment) and from A1 to D (where an A means minimal credit risk, and a D rating means impairment).

Risk management (cont.)

Credit quality of financial assets neither past due nor impaired	As at 31 December 2015			As at 31 December 2014		
	to large enterprises	to small and medium enterprises	Total	to large enterprises	to small and medium enterprises	Total
6.1	425 698	0	425 698	190 243	0	190 243
6.2	1 432 285	0	1 432 285	1 429 482	0	1 429 482
6.3	817 512	0	817 512	1 522 665	0	1 522 665
6.4	357 450	0	357 450	200 124	0	200 124
6.5	34 036	0	34 036	2 912	0	2 912
1C	3	0	3	4	0	4
2A	68	0	68	0	0	0
2B	0	0	0	55	0	55
2C	3 978	0	3 978	103	0	103
3A	2 142	0	2 142	1 895	0	1 895
3B	90 718	0	90 718	2 036	0	2 036
3C	62 751	0	62 751	76 114	0	76 114
4A	23 952	0	23 952	242 424	0	242 424
4B	115 923	314 260	430 183	174 425	150 999	325 424
4C	464 593	0	464 593	349 806	0	349 806
5A	318 125	3	318 128	555 111	0	555 111
5B	586 783	313 743	900 526	516 429	226 107	742 536
5C	847 378	0	847 378	1 250 006	0	1 250 006
6A	1 287 700	104 062	1 391 762	1 194 731	85 990	1 280 721
6B	1 086 117	101 615	1 187 732	823 945	128 386	952 331
6C	1 006 402	115 581	1 121 983	909 659	83 225	992 884
7A	605 541	85 994	691 535	645 110	117 450	762 560
7B	190 556	57 143	247 699	201 999	78 410	280 409
7C	173 051	38 869	211 920	285 568	53 459	339 027
8A	126 252	37 020	163 272	84 979	38 942	123 921
8B	47 897	14 087	61 984	45 362	30 483	75 845
8C	7 124	20 431	27 555	25 553	12 842	38 395
9A	17 818	0	17 818	22 417	0	22 417
9B	19 584	13 537	33 121	19 646	20 793	40 439

Risk management (cont.)

Credit quality of financial assets neither past due nor impaired	As at 31 December 2015			As at 31 December 2014		
	to large enterprises	to small and medium enterprises	Total	to large enterprises	to small and medium enterprises	Total
9C	40 224	0	40 224	25 170	0	25 170
10	0	0	0	3 135	2 013	5 148
1.0	0	3 016	3 016	0	0	0
1.5	3 372	0	3 372	0	0	0
2.0	13 968	0	13 968	0	0	0
2.5	124	0	124	82	0	82
3.0	0	0	0	51 203	0	51 203
3.5	2	0	2	5 370	0	5 370
4.5	46 513	0	46 513	56 909	0	56 909
C1	0	0	0	0	0	0
C3	40 429	0	40 429	0	0	0
C4	0	0	0	209	0	209
C5	0	0	0	26 079	0	26 079
C6	0	0	0	701 734	0	701 734
C7	0	0	0	403 253	0	403 253
C8	0	0	0	462 704	0	462 704
Non-rated exposures	114 679	7 866	122 545	133 582	2 274	135 856
Total	**10 410 748**	**1 227 227**	**11 637 975**	**12 642 233**	**1 031 373**	**13 673 606**

The below tables present credit quality of trading assets, derivatives and investment securities, set up based on internal rating models of the Bank:

- Treasury bonds as well as bills and other receivables from National Bank of Poland were assigned a rating equal to that of Poland (rating A);
- similarly the rating of a particular corporation is assigned to its issued debt securities as well as equity instruments, according to the rating scales described above.

Risk management (cont.)

	As of 31 December 2015			As of 31 December 2014		
	to governments and central banks	to banks	**Total**	to governments and central banks	to banks	**Total**
A	15 908 337	0	15 908 337	12 332 163	0	0
A2	0	0	0	0	51	51
A3	0	775	775	0	587 361	587 361
B1	0	387 757	387 757	0	84 580	12 416 743
B2	0	51 606	51 606	0	63 399	63 399
B3	0	0	0	0	1	1
B4	0	3 944	3 944	0	24 604	24 604
B5	0	16 265	16 265	0	785	785
C	0	288	288	0	574	574
D	0	0	0	0	0	0
Non-rated exposures	0	18 785	18 785	0	16 287	16 287
Total	**15 908 337**	**479 420**	**16 387 757**	**12 332 163**	**777 642**	**13 109 806**

	As of 31 December 2015				As of 31 December 2014			
	to large enterprises	to small and medium enterprises	to the public sector	**Total**	to large enterprises	to small and medium enterprises	to the public sector	**Total**
1.5	0	0	0	0	519 937	0	0	519 937
2.0	520 745	0	0	520 745	0	0	0	0
4.5	3	0	0	3	0	0	0	0
6.1	4 372	0	0	4 372	10 840	0	0	10 840
6.2	35 091	0	0	35 091	54 367	0	0	54 367
6.3	20 925	0	0	20 925	40 039	0	0	40 039
6.4	9 699	0	0	9 699	7 173	0	0	7 173
6.5	246	0	0	246	0	0	0	0
2A	314	0	0	314	0	0	0	0
2B	0	0	0	0	550	0	0	550
3A	6 050	0	0	6 050	750	0	0	750
3B	11	0	0	11	0	0	0	0

Risk management (cont.)

	As of 31 December 2015				As of 31 December 2014			
	to large enterprises	to small and medium enterprises	to the public sector	**Total**	to large enterprises	to small and medium enterprises	to the public sector	**Total**
4A	3 817	0	0	3 817	2 265	0	0	2 265
4B	385	2 720	0	3 105	660	1 214	0	1 874
4C	5 494	0	0	5 494	3 949	0	0	3 949
5A	4 714	0	0	4 714	9 137	0	0	9 137
5B	6 184	1 264	0	7 448	19 900	1 714	0	21 614
5C	16 093	0	0	16 093	41 200	0	0	41 200
6A	24 204	517	0	24 722	61 885	347	0	62 232
6B	243 008	409	0	243 417	7 380	295	0	7 675
6C	40 805	453	0	41 258	341 490	429	0	341 919
7A	8 467	57	0	8 524	9 078	884	0	9 962
7B	23 590	485	0	24 075	34 756	106	0	34 862
7C	427	112	0	539	2 042	19	0	2 061
8A	0	63	0	63	561	111	0	672
8B	59	59	0	118	1 936	0	0	1 936
8C	3	7	0	10	0	46	0	46
9A	0	0	0	0	4	0	0	4
9B	0	6	0	6	0	60	0	60
9C	0	0	0	0	4	0	0	4
10A	0	0	0	0	0	25	0	25
A3	0	0	0	0	2 657	0	0	2 657
B3	0	0	0	0	505	0	0	505
C2	25	0	0	25	368	0	0	368
C3	559	0	0	559	983	0	0	983
C4	804	0	0	804	4 376	0	0	4 376
C5	1 004	0	0	1 004	1 244	0	0	1 244
C6	320	0	0	320	264	0	0	264
C7	10	0	0	10	186	0	0	186
C8	178	0	0	178	50	0	0	50
C9	28	0	0	28	0	0	0	0
Non-rated exposures	113 098	1 326	0	114 424	503	628	0	1 131
Total	**1 090 734**	**7 479**	**0**	**1 098 213**	**1 181 041**	**5 878**	**0**	**1 186 919**

Risk management (cont.)

The following table provides information on concentration of credit risk by industry in case of exposures from the Central Bank, other banks and the Bank's clients.

Structure of gross exposures by industrial sectors				
	As at 31 December 2015		As at 31 December 2014	
Name of the industry	**Gross amount of exposures**	**%**	**Gross amount of exposures**	**%**
Households	19 909 762	52,0%	18 776 108	49,3%
Wholesale and retail trade; repair of motor vehicles, motorcycles,	4 045 939	10,9%	4 334 497	11,4%
Manufacturing	3 677 824	9,9%	3 686 023	9,7%
Financial and insurance activities	3 253 404	8,0%	1 350 807	3,5%
Activities related to real estate	2 966 471	8,0%	3 367 784	8,8%
Production and supply of electricity, gas, steam and air conditioning supply	1 021 913	2,8%	1 154 187	3,0%
Construction	893 793	2,4%	1 067 822	2,8%
Transport and warehouse	510 125	1,4%	463 697	1,2%
Information and communication	453 935	1,2%	2 771 732	7,3%
Professional, scientific and technical activities	429 889	1,2%	276 814	0,7%
Hotels and restaurants	407 442	1,1%	239 526	0,6%
Administration activities and supporting activities	347 322	0,9%	250 917	0,7%
Other	376 808	1,0%	349 247	0,9%
Total	**38 294 628**	**100,0%**	**38 089 162**	**100,0%**

Risk management (cont.)

Practices „Forbearance"

With reference to document 2012/853 issued by European Securities and Markets Authority (ESMA)and instruction from European Banking Authority in relation to disclosures concern the "forborne" exposure Bank implemented following practices for classification of those exposures .

The exposures flagged as "forborne" are loan agreements with reference to which concession agreement with debtors, who experience or will experience the difficulties in meeting their financial commitments, was made. The concession agreement applies one of the following actions:

- changes in current agreement conditions, as a result of which – as it is presumed – the debtors could not meet due to the financial difficulties ("at risk"), leading to insufficient ability to service the debt and which would not take place if debtor did not face financial difficulties;
- full or partial refinancing of debt agreement at risk, which would not take place if debtor did not face financial difficulties.

Exposures are not reported as "forborne", when all of the below conditions are met:

- the agreement is no longer considered at risk, including situations when it was removed from agreement at risk category after analysis of debtor's financial situation, which proved the agreement does not fulfill conditions required to consider it as at risk,
- from the date the exposure was assessed as not at risk at least two year probation period passed,
- the regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period,
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

When the concession agreement leads to significant change in conditions or future expected cash flows, compared to market conditions or expected future cash flows from current financial assets, current financial asset is derecognized from the statement of financial position, and new financial assets is recognized in the statement of financial position, at the recognition date, in value net of impairment loss due to credit risk applicable for the new financial asset. The difference between impairment losses due to credit risk are recognized in profit or loss. This recognition is not related to the change or lack of change in legal form of the transaction and is based on its economic substance.

With reference to non-retail exposures the forbearance agreement, changing the conditions of agreement due to the debtor financial difficulties is treated as one of the triggers to perform individual impairment loss test and results in requirement to perform analysis whether to recognize an impairment loss on the exposure.

Risk management (cont.)

The retail exposures flagged as "forborne" for which impairment trigger was identified are covered by collective model of impairment . The retail exposures flagged as "forborne" for which impairment trigger was not identified are covered by IBNR model. The details of the impairment loss calculation for loans exposures are presented in Note 2.8. to the financial statements. The below table presents the value of „forborne" exposures:

Forborne exposures				
As at 31 December 2015	**Gross value**	**Impairment allowance**	**Net value**	**Value of received collateral**
Not impaired exposures	**947 836**	**28 367**	**919 469**	**585 205**
Non past due	**641 779**	**13 935**	**627 843**	**394 798**
Individual customers	242 071	2 152	239 919	119 837
Micro customers	137 066	673	136 393	117 873
Large enterprises	254 983	10 658	244 325	153 109
Small and medium enterprises	7 658	453	7 206	3 979
Past due	**306 058**	**14 432**	**291 626**	**190 406**
Individual customers	169 774	7 190	162 584	81 761
Micro customers	70 008	2 696	67 312	50 889
Large enterprises	63 052	4 325	58 727	55 437
Small and medium enterprises	3 224	221	3 003	2 320
Impaired exposuers	**890 747**	**443 506**	**447 241**	**398 356**
Group method	**273 274**	**125 938**	**147 336**	**157 597**
Individual customers	132 592	70 169	62 423	62 377
Micro customers	140 682	55 769	84 913	95 220
Individual method	**617 472**	**317 568**	**299 905**	**240 759**
Individual customers	22 634	12 328	10 306	8 868
Micro customers	27 078	14 830	12 248	11 417
Large enterprises	560 436	285 348	275 088	217 696
Small and medium enterprises	7 325	5 062	2 263	2 779
Total	**1 838 583**	**471 873**	**1 366 710**	**983 561**

Risk management (cont.)

Forborne exposures				
As at 31 December 2014	**Gross value**	**Impairment allowance**	**Net value**	**Value of received collateral**
Not impaired exposures	**1 358 810**	**40 099**	**1 318 711**	**819 535**
Non past due	**1 057 638**	**18 211**	**1 039 426**	**646 480**
Individual customers	144 189	2 653	141 536	57 477
Micro customers	139 232	2 316	136 915	75 675
Large enterprises	763 137	12 801	750 336	506 126
Small and medium enterprises	11 080	441	10 639	7 201
Past due	**301 172**	**21 887**	**279 285**	**173 055**
Individual customers	147 883	9 813	138 070	62 319
Micro customers	84 003	7 552	76 450	42 231
Large enterprises	65 967	4 301	61 666	65 275
Small and medium enterprises	3 319	221	3 098	3 231
Impaired exposuers	**996 463**	**467 045**	**529 419**	**372 764**
Group method	**254 536**	**118 365**	**136 171**	**129 812**
Individual customers	120 934	65 795	55 139	51 515
Micro customers	133 602	52 571	81 031	78 298
Individual method	**741 927**	**348 679**	**393 248**	**242 951**
Individual customers	14 040	4 468	9 573	0
Micro customers	14 498	9 476	5 022	0
Large enterprises	697 223	323 113	374 110	239 413
Small and medium enterprises	16 166	11 622	4 543	3 539
Total	**2 355 273**	**507 143**	**1 848 130**	**1 192 299**

In "Not impaired exposures" category are presented loans exposures with impairment trigger identified, but no impairment loss recognized, are presented of gross value PLN 330 996 thousand (in 2014 PLN 275 381 thousand), and impairment loss (IBNR) of PLN 15 657 thousand (in 2014 PLN 12 205 thousand).

In the table below "forborne" exposures to loans share is presented:

Net amount exposures				
As at 31 December 2015	**Forborne**	**Total Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	475 233	19 202 502	**2%**	287 811
Micro customers	300 866	2 416 760	**12%**	141 202
Large enterprises	578 140	10 808 023	**5%**	205 704
Small and medium enterprises	12 471	1 240 278	**1%**	3 029
Public sector	0	21 583	**0%**	0
Total	**1 366 710**	**33 689 146**	**4%**	**637 746**

Risk management (cont.)

Net amount exposures				
As at 31 December 2014	**Forborne**	**Total Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	344 318	18 058 044	**2%**	146 504
Micro customers	299 418	2 326 835	**13%**	87 722
Large enterprises	1 186 112	13 241 176	**9%**	564 773
Small and medium enterprises	18 281	1 061 253	**2%**	5 686
Public sector	0	29 644	**0%**	0
Total	**1 848 130**	**34 716 952**	**5%**	**804 684**

** - the Bank classifies to the category "Under probation" the exposures towards which previously concessions were granted and which are currently under observation before the full recovery*

In the table below "forborne" exposures are presented by days past due:

Forborne exposures - gross		Past due					
As at 31 December 2015	Not past due	Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	**Total**
Not impaired exposures	**641 779**	**150 108**	**133 316**	**617**	**865**	**21 152**	**947 836**
Individual customers	242 071	95 548	74 169	0	0	56	**411 845**
Micro customers	137 066	41 257	28 751	0	0	0	**207 074**
Large enterprises	254 983	13 302	29 956	0	278	19 516	**318 035**
Small and medium enterprises	7 658	1	440	617	587	1 580	**10 882**
Impaired exposuers	**305 851**	**27 405**	**36 104**	**54 410**	**15 236**	**451 741**	**890 747**
Individual customers	15 603	11 636	23 671	12 785	3 232	88 300	**155 226**
Micro customers	7 026	15 769	12 432	7 826	5 007	119 699	**167 760**
Large enterprises	282 624	0	1	33 799	6 349	237 663	**560 436**
Small and medium enterprises	597	0	0	0	648	6 079	**7 325**
Total	**947 629**	**177 513**	**169 420**	**55 027**	**16 102**	**472 893**	**1 838 583**

Risk management (cont.)

Forborne exposures - gross As at 31 December 2014	Not past due	Past due Less than 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 days and 1 year	More than 1 year	Total
Not impaired exposures	**1 057 638**	**140 846**	**89 514**	**5 500**	**4 549**	**60 763**	**1 358 810**
Individual customers	144 189	95 782	50 290	1 664	147	0	**292 072**
Micro customers	139 232	45 063	38 939	0	0	0	**223 234**
Large enterprises	763 137	0	1	3 107	4 212	58 647	**829 104**
Small and medium enterprises	11 080	0	284	729	189	2 116	**14 400**
Impaired exposuers	**292 213**	**22 846**	**60 287**	**50 024**	**51 039**	**520 054**	**996 463**
Individual customers	7 314	9 502	17 625	23 825	3 763	72 945	**134 974**
Micro customers	7 873	12 916	11 088	10 969	9 708	95 546	**148 100**
Large enterprises	274 026	428	31 575	13 089	35 563	342 542	**697 223**
Small and medium enterprises	3 000	0	0	2 141	2 004	9 021	**16 166**
Total	**1 349 851**	**163 692**	**149 801**	**55 524**	**55 588**	**580 818**	**2 355 273**

Changes in carrying amount of "forborne" loans and advances to customers during the year ended 31 December 2015 are presented below:

	For the year ended 31 Decemeber 2015
Net carrying amount at the beginning of year	**1 848 130**
Changes in impairment allowances in the year	35 270
Amount of exposures with the flag removed in the year	-1 083 140
Amount of exposures flagged in the year	670 823
Other changes/repayments	-104 373
Net carrying amount at the end of year	**1 366 710**

The limit of concentration

In order to diversify the credit risk, the Bank implemented internal concentration limits relevant to the scale of activity and complexity of exposure reducing the size of the portfolios. Limits were implemented for internal control purposes and management of the exposure through regular monitoring.

Credit risk limits are determined in internal policies and accepted by the Management Board of the Bank.

The Bank monitors in compliance with the article 395 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013 the utilization of concentration limits for individual clients and groups of clients within the same capital or organizational group.

The amounts of acceptable credit concentration limit for a single client or a group of related clients were as follows:

Risk management (cont.)

Acceptable concentration limit	As at 31 December 2015	As at 31 December 2014
Bank exposure concentration limit (25%)	1 431 011	1 356 018

The Bank had no exposures exceeding the above mentioned concentration limit.

Exposure to a single borrower is subject to further limitations in the form of specific limits concerning exposure to risk and daily supply risk limits applicable to items such as foreign exchange forward contracts. The actual risk exposure is compared with the acceptable limits on a daily basis.

Customer exposures exceeding 10% of Bank's equity are presented below (PLN 572 404 thousand). They are presented based on exposure to a single customer or a capital group without taking into account any deductions resulting from the use of credit risk reduction techniques or exemptions defined in article 395 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013 of the Resolution on exposure concentration limits. Exposures to governments, central banks and other banks were also included.

As at 31 December 2015				
Customer No.	**Borrower name**	**Exposure**	**Entity / Group**	**% share**
1	Borrower 1	12 146 112	Entity	212%
2	Borrower 2	4 140 102	Group	72%
3	Borrower 3	3 993 673	Entity	70%
4	Borrower 4	1 205 421	Group	21%

As at 31 December 2014				
Customer No.	**Borrower name**	**Exposure**	**Entity / Group**	**% share**
1	Borrower 1	9 699 462	Entity	179%
2	Borrower 2	6 222 591	Group	115%
3	Borrower 3	6 037 693	Entity	111%
4	Borrower 4	1 201 103	Group	22%

As at 31 December 2015 exposures to borrowers: 1, 2 and 3 relate to the National Bank of Poland and the State Treasury and are not subject to total exposure limit of 25% of equity (resulting from article 400 of Regulation (UE) No 575/2013 of the European Parliament and of the Council of 26 June 2013) After applying exceptions set out in article 400 of Regulation (UE), exposure to those borrowers is below the permissible credit concentration limit which is below 25%.

Risk management (cont.)

Retail mortgage loans denominated in foreign currencies

CHF mortgage loans portfolio is a significant subject of credit risk management due to its value and share in the total loans portfolio of the Bank. Share of the loans denominated in CHF was equal 65.55% of all mortgage loans of the Bank as at the end of 2015, out of which 63.09% concerned individual clients and 2.46% micro-enterprises. The below table presents value of mortgage loans portfolio divided by currencies and by segments to individual clients and micro-enterprises as at 31 December 2015 and 31 December 2014.

Mortgage loans divided by currencies	As at 31 December 2015, CHF/PLN fx=3,9		As at 31 December 2014, CHF/PLNfx=3,5	
	Gross balance sheet exposure	Share in mortgage portfolio	Gross balance sheet exposure	Share in mortgage portfolio
Individual customers				
PLN	1 708 456	9,27%	1 266 279	7,19%
EUR	3 754 023	20,36%	3 996 779	22,68%
CHF	11 629 234	63,09%	11 022 433	62,55%
USD	5 572	0,03%	4 077	0,02%
Total	**17 097 285**	**92,75%**	**16 289 569**	**92,45%**
Micro customers				
PLN	787 747	4,27%	718 664	4,08%
EUR	95 002	0,52%	119 907	0,68%
CHF	454 018	2,46%	492 356	2,79%
Total	**1 336 767**	**7,25%**	**1 330 927**	**7,55%**
Total				
PLN	2 496 204	13,54%	1 984 943	11,26%
EUR	3 849 025	20,88%	4 116 687	23,36%
CHF	12 083 252	65,55%	11 514 788	65,35%
USD	5 572	0,03%	4 077	0,02%
Total	**18 434 051**	**100,00%**	**17 620 496**	**100,00%**

The Bank does not offer mortgage loans in CHF and the increase of mortgage loans value was an outcome of the exchange rate rise, although some increase of PLN loans sale was observed.

Average LTV on mortgage loans denominated in foreign currencies amounted to 125.69% as at 31 December 2015 (as at 31 December 2014 amounted to 117.96%).

The below table presents quality of mortgage loans portfolio granted to individual clients by past due days (DPD).

Risk management (cont.)

Currency	not overdue	Past due (DPD) <1 - 90>	<91 - 180>	above180	Total
PLN	1 149 707	92 357	6 812	459 580	1 708 456
CHF	10 423 555	1 054 312	48 982	102 385	11 629 234
EUR	3 582 608	158 602	8 908	3 906	3 754 023
USD	5 572	0	0	0	5 572
Total	**15 161 442**	**1 305 271**	**64 702**	**565 871**	**17 097 285**

The picture of past due structure divided by currencies is disordered by the process of currency conversion to PLN of loans in foreign currency at the moment of termination of the agreement (due to, among others, lack of payments).

Proposals of system solutions connected with currency risk of portfolios denominated in CHF, presented by different state and supervisory agencies, might have negative influence on financial results and equity of the Bank.

43. Liquidity risk

The main purpose of the liquidity risk management process is to develop a structure of financial statement position in Bank that allows the Bank to achieve profit targets defined in the financial plan and, at the same time, to maintain Bank's ability to timely settle its liabilities and comply with both internal and external (regulatory) liquidity risk limits.

The Department of Asset and Liability Management is responsible for managing of both current and inter-day liquidity. The level of mid-term and long-term liquidity risk incurred by the Bank is assessed based on liquidity reports.

The liquidity reports show the liquidity gap level (static analysis of the liquidity gap), i.e. a gap between the maturities of assets and liabilities in particular time periods, based on the level of liquidity ratios achieved, which show the ratio of accumulated inflows to accumulated outflows in any given period.

The reports are prepared for balance sheet and off-balance sheet items in PLN and in base foreign currencies, i.e. EUR, USD, CHF, JPY,GBP as well as other foreign currencies cumulatively. The reports take into account the elements of modeling the behavior of the financial market and that of Bank's customers (e.g. renewal of deposits, core deposits on current accounts, the probability of realization of off-balance sheet liabilities, the mandatory reserve and adjustment of receivables due to identified impairment).

In the Bank, mid-term and long-term liquidity risk is managed by the Asset – Liability Committee (ALCO), which determines the desired structure of Bank's balance sheet using a system of limits covering e.g. the liquidity gap amount, the level of deposit concentration, the ratio of loan portfolio value to the value of deposits.

Risk management (cont.)

The Department of Asset and Liability Management operates on the financial market to achieve an appropriate structure of the portfolio of assets and liabilities, so that the required liquidity risk limits are complied with. The Bank's pricing and product policy, as an instrument that affects the structure of the Bank's statement of financial position, is another tool used to manage liquidity risk.

The Bank also calculates on a daily basis regulatory liquidity ratios in accordance with the requirements of Resolution No. 386/2008 of the Polish Financial Supervision Authority as amended. These are:

- measures of short-term liquidity,
- measures of long-term liquidity.

The following table presents an ageing analysis of financial liabilities in the form of undiscounted cash flows.

As at 31 December 2015			**Contractual cash flows**				
Type of liability	**Nominal amount**	**Book value**	within 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	**Total**
Liabilities in respect of derivative financial instruments	**1 363 434**	**1 478 611**	**377 475**	**169 544**	**949 396**	**10 027**	**1 506 442**
inflows	30 908 623	0	22 095 567	2 701 376	6 227 346	11 747	31 036 036
outflows	32 272 057	0	22 473 042	2 870 920	7 176 742	21 774	32 542 477
Financial liabilities	**48 105 049**	**48 198 496**	**35 928 414**	**7 451 380**	**5 025 607**	**919 357**	**49 324 758**
Amounts due to banks and other monetary institutions	7 930 198	7 935 995	2 004 598	1 989 485	4 188 274	239 003	8 421 360
including received loans	7 455 501	7 457 205	1 511 004	1 956 381	4 175 127	239 003	7 881 516
Amounts due to customers	38 668 689	38 754 180	33 670 875	5 381 874	72 152	295	39 125 195
Subordinated liabilities	724 455	724 789	9 526	28 577	247 728	679 666	965 496
Liabilities from issuance of debt securities	500 000	501 825	7 750	7 750	515 500	0	531 000
Other financial liabilities	281 707	281 707	235 666	43 695	1 954	392	281 707
Guarantee liabilities granted	**1 884 362**	0	**0**	**1 884 362**	**0**	**0**	**1 884 362**
Financial liabilities granted	**8 122 312**	0	**0**	**3 659 332**	**4 462 980**	**0**	**8 122 312**

Risk management (cont.)

As at 31 December 2014 Type of liability	Nominal amount	Book value	Contractual cash flows within 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	Total
Liabilities in respect of derivative financial instruments	**953 543**	**1 124 388**	**509 601**	**340 428**	**202 052**	**114 435**	**1 166 516**
inflows	27 312 088	0	17 540 262	4 093 644	3 699 251	2 039 408	27 372 564
outflows	28 265 632	0	18 049 863	4 434 072	3 901 303	2 153 842	28 539 080
Financial liabilities	**46 305 047**	**46 070 304**	**33 660 167**	**9 547 289**	**2 659 451**	**1 286 055**	**47 152 962**
Amounts due to banks and other monetary institutions	11 554 560	11 242 801	3 103 557	5 571 620	2 045 030	915 115	11 635 322
including received loans	8 010 204	8 012 111	1 288 461	4 081 688	1 955 412	915 115	8 240 676
Amounts due to customers	33 689 806	33 764 529	30 356 946	3 932 268	1 685	1 256	34 292 155
Subordinated liabilities	319 673	320 006	3 755	11 265	68 169	351 487	434 677
Liabilities from issuance of debt securities	500 000	501 960	0	16 500	533 300	0	549 800
Other financial liabilities	241 008	241 008	195 909	15 636	11 266	18 197	241 008
Guarantee liabilities granted	**2 019 923**	0	**0**	**2 019 923**	**0**	**0**	**2 019 923**
Financial liabilities granted	**4 454 747**	0	**0**	**1 970 057**	**2 484 690**	**0**	**4 454 747**

The following table presents the cumulative liquidity gap of the Bank including off-balance transactions (without credit lines).

	within 1 month	1 - 3 months	3 - 12 months	1 - 2 years	2 - 3 years	up to 5 years	< 20 years
As at 31 December 2015	-4 723 038	-11 852 254	-17 030 258	-17 763 966	-16 853 546	-12 404 635	10 148
As at 31 December 2014	-3 685 126	-13 309 921	-14 824 607	-15 333 681	-14 580 601	-12 292 039	-61 291

Amounts due to customers in current accounts are presented in liabilities „within 1 month".

The Bank's activities are aimed at transforming the maturities of assets and liabilities to reflect the preferences of customers who place their deposits with the Bank and receive loans from it, while maintaining the acceptable level of risk mitigated by mid-term and long-term financing obtained on the interbank market.

The structure of maturities of assets and liabilities and an ability to replace at acceptable cost interest-bearing liabilities upon their maturities, all are considered significant elements of Bank's liquidity assessment and its exposure to changes in interest rates and foreign exchange rates.

Risk management (cont.)

44. Other market risks

44.1. Market risk

Market risk is related to open positions on interest rate, foreign exchange and equity products exposed to changes in market values. For the purposes of determining risk limits, the Bank uses simulation methods relying on the base point value and methods based on the net position value.

The market risk management process is subject to continuous assessment and evolution in order to adjust it to the changing market conditions.

The management process comprises:

- identification of risk factors;
- risk measurement;
- risk monitoring;
- risk reporting.

44.2. Currency risk

Currency risk is a risk of changes in value of individual financial instruments due to fluctuations in foreign exchange rates. In connection with its activity, the Bank is exposed to the effect of fluctuations in foreign exchange rates on its financial position and cash flows.

Currency risk, understood as the probability of incurring a loss, depends on:

- foreign exchange rate fluctuations,
- non-matching receivables and liabilities in foreign currencies.

The main purpose of currency risk management is to identify areas prone to currency risk and take actions aimed at reducing the risk to levels acceptable by the Bank.

For the purposes of currency risk management, the Bank has developed a system of market risk levels. As part of the division of responsibilities in the risk management process the Bank's Management Board determines in its Asset and Liability Management Policy the level of general currency risk appetite, taking into account budget assumptions and the effect of potential losses on the Bank's equity.

The Bank's currency risk management policy assumes having a foreign exchange position, which enables the Bank to offer its customers competitive foreign exchange quotations. Currency risk is immaterial – the capital requirement in respect of foreign exchange risk is equal to PLN 766 thousand. The Bank uses simulation methods in the management process, utilizing value at risk (VaR) method in calculation of currency risk exposure.

Risk management (cont.)

Detailed values of the individual limits are determined by the Asset – Liability Committee and cover:

- the maximum overnight open position levels for each currency,
- the maximum open position in Greek's ratios for each currency pair
- the total overnight and intraday open position levels for all currencies,
- the value at risk limit, determined for a 1-day position maintenance horizon and the confidence level of 99%. Value at risk is determined by the variance — covariance method,
- monthly, quarterly and annual maximum loss limits.

The amount of currency risk borne by the Bank, measured by VaR method according to the above described parameters is presented in the below table:

Value at risk limit	2015				2014
	Min.	Max.	Average	As at 31 December	As at 31 December
Currency risk	13	519	126	221	174

Moreover, for the purposes of calculating the requirement with respect to currency risk exposure, the so-called basic method is used, which determines the acceptable limits of exposure to the risk of unmatched currency receivables and liabilities (i.e. total position) with respect to the Bank's own funds.

Daily reports on Bank's currency position, comprising an analysis of foreign exchange operations in the context of both the compliance with prudential regulatory standards (limits) and the economic results, are presented to the directors of organizational units responsible for risk management and control and to the Members of the Management Board of the Bank.

As at 31 December 2015 and 31 December 2014 the Bank carried out an analysis of the impact of changes in foreign exchange rates on foreign exchange positions of the Bank for three foreign currencies (EUR, CHF, USD), which have the largest open position. The results of this analysis are presented in the table below (in PLN thousand):

As at 31 December 2015	Base position	Exposure after rate change of -50 pts	Exposure after rate change of +50 pts	Impact on the profit/loss rate after change of -50 pts	Impact on the profit/loss after rate change of +50 pts
EUR	27 135	27 104	27 167	-32	32
USD	4 312	4 307	4 318	-6	6
CHF	17 086	17 064	17 108	-22	22
Total				**-59**	**59**

As at 31 December 2014	Base position	Exposure after rate change of -50 pts	Exposure after rate change of +50 pts	Impact on the profit/loss rate after change of -50 pts	Impact on the profit/loss after rate change of +50 pts
EUR	7 239	7 230	7 247	-8	8
USD	-13 347	-13 328	-13 366	19	-19
CHF	5 568	5 561	5 576	-8	8
Total				**3**	**-3**

Risk management (cont.)

Assuming that exchange rates fall at the same time by 50 base points, the net short currency position of the Bank would fall by PLN 59 thousand, while with an increase in exchange rate by 50 base points net short currency position of the Bank would increase by PLN 59 thousand.

As at 31 December 2015, Bank's net long currency position amounted to PLN 49 956 thousand, which constituted 0.87% of Bank's own funds (31 December 2014 net currency position of the Bank amounted to PLN 14 791 thousand, which was equal to 0.27 % of Bank's own funds). The following table presents the Bank's balance sheet and off-balance items by currency.

Concentrations of assets, liabilities and off-balance items in foreign currencies and the Bank's currency position					
As at 31 December 2015	**EUR**	**USD**	**CHF**	**Other**	**Total**
Components of currency position – assets	9 801 926	607 672	12 376 980	252 454	23 039 033
Components of currency position – liabilities	10 503 107	1 981 514	3 211 243	332 488	16 028 352
Off-balance components of currency position – amounts receivable	16 829 196	22 105 727	1 205 429	658 354	40 798 706
Off-balance components of currency position – amounts payable	16 100 880	20 727 573	10 354 080	576 899	47 759 432
Net long currency position (+)	**27 135**	**4 312**	**17 086**	**1 422**	**49 956**
Net short currency position (-)	**-**	**-**	**-**	**-**	**-**

Concentrations of assets, liabilities and off-balance items in foreign currencies and the Bank's currency position					
As at 31 December 2014	**EUR**	**USD**	**CHF**	**Other**	**Total**
Components of currency position – assets	10 293 433	832 779	11 757 624	364 022	23 247 858
Components of currency position – liabilities	9 520 965	1 899 444	3 854 876	337 390	15 612 675
Off-balance components of currency position – amounts receivable	11 662 245	14 274 956	2 023 889	423 291	28 384 382
Off-balance components of currency position – amounts payable	12 427 474	13 221 639	9 921 069	447 940	36 018 121
Net long currency position (+)	**7 239**	**-**	**5 568**	**1 983**	**14 791**
Net short currency position (-)	**-**	**13 347**	**-**	**-**	**13 347**

44.3. Interest rate risk for cash flows and fair value

Interest rate risk arises from the fact that the possible changes in market interest rates can affect future cash flows or the fair value of financial instruments held by the Bank.

The main objectives of interest rate risk management include identification of the areas in which the Bank is exposed to interest rate risk and shaping the structure of balance sheet, so that maximum net interest income can be achieved.

The Bank's policy on interest rate risk management assumes the existence of a system of internal transfer prices in the Bank, as part of which the business units, which do not incur interest rate risk on their own behalf, transfer the risk to the units responsible for its central management.

For the purpose of interest rate risk management in the Bank, a system of market risk levels has been developed. As part of the division of responsibilities in the risk management process the Bank's

Risk management (cont.)

Management Board in its Assets and Liabilities Management Policy determines the level of general interest rate risk appetite, taking into account the budget assumptions and the effect of potential losses on the Bank's equity.

Subsequently, the detailed values of the individual limits are determined by the Asset – Liability Committee and cover:

- the maximum open interest rate position limits measured as the amount of change in the fair value resulting from a 1 base point increase in market interest rates. The limits are diversified with respect to the source of exposure (bank book and trading book), their currency and time period in accordance with the repricing date grid used in the Bank,
- the value at risk limits, determined for the bank and trading books separately, assuming a 1-day position maintenance horizon and the confidence level of 99%. Value at risk is determined by the variance – covariance method. The Bank does not have any open interest rate positions on instruments with non-linear risk profile,
- monthly, quarterly and annual maximum loss limits.

All limits associated with interest rate risk are monitored by the Risk Management Department. Risk is measured on a daily basis. Daily reports on the utilization of different risk limits are distributed in an electronic format to Bank's business units and the Members of the Board supervising them.

The Asset – Liability Committee (ALCO) is responsible for periodical control of the interest rate risk management. During its monthly meetings ALCO evaluates the levels of risk to which the Bank is exposed to and, if necessary, instructs the relevant units to take appropriate steps to mitigate it.

The Bank maintains separate bank and trading portfolios. According to the Regulation of the Parent Entity's Management Board on detailed principles for separating the trading portfolio, it includes:

- transactions concluded with an intention to obtain financial gains in the short term as a result of changes in the market parameters, in particular foreign exchange rates and interest rates;
- all transactions hedging the risk on transactions included in the trading portfolio;
- internal hedging instruments, which mitigate bank portfolio risks.

Due to the fact that the risks on transactions concluded are not uniform, sub-portfolios within the trading portfolio had to be separated, which allows to monitor positions and limits on individual types of transactions.

For the purposes of capital requirement calculation regarding the trading book exposure to interest rate risk, the Bank uses the method of an average, updated period of return. Transactions not classified to the trading portfolio are included in the bank portfolio.

Risk management (cont.)

The following table presents the level of Bank's exposure to interest rate risk, for the bank book and the trading book separately, measured in terms of the amount of the change in the fair value resulting from a 1 base point increase in market interest rates. The values in different maturity brackets are presented as absolute values in order to present the general level of exposure to interest rate risk, irrespective of the direction of a given position.

	2015				2014			
	Min.	Max.	Average	As at 31 December	Min.	Max.	Average	As at 31 December
Bank book								
< 1Y	67	3 176	2 154	2 111	1	2 355	544	2 355
1 – 3Y	5	630	106	93	2	617	94	71
> 3Y	4	643	66	92	28	153	100	142
Trading book								
< 1Y	0	184	46	24	0	132	38	0
1 – 3Y	2	259	79	109	0	180	67	35
> 3Y	1	201	70	58	0	149	40	69

The following table presents the level of Bank's exposure to interest rate risk, for the bank book and the trading book separately, measured using the value at risk, in accordance with the model parameters defined in the system of limits and described above.

	2015				2014
	Min.	Max.	Average	As at 31 December	As at 31 December
Bank book	1 762	6 530	3 818	4 849	5 836
Trading book	173	1 702	633	357	645

The Bank also calculates the value of Earnings-at-Risk, which shows the sensitivity of net interest income in the year time horizon, assuming immediate and identical for all the currencies change in market interest rates by 100 basis points, continuing throughout the duration of the simulation. The result of the measurement as the end of 2015 showed the impact on interest result of PLN 169 059 thousand, which is 3% of the own funds of the Bank included in the calculation of the capital adequacy ratio compared to PLN 83 319 thousand for the previous year, representing 1.5% of the funds.

The following table presents an analysis of asset, liabilities and off-balance sheet items sensitivity to changes in interest rates. The table presents the carrying amounts of the Bank's assets and liabilities for the earlier of the two dates: change of the contractual interest rate date or due date.

Valuation of derivative financial instruments, used mainly to reduce the Bank's exposure to changes in interest rates, is presented under "Derivative financial instruments" in liabilities in "Assets" and "Liabilities".

Risk management (cont.)

The Bank's exposure to interest rate risk									
As at 31 December 2015	**Non-interest bearing**	**1M**	**3M**	**6M**	**12M**	**2Y**	**5Y**	**>5Y**	**Total**
Assets									
Cash and balances with the Central Bank	1 067 024	1 636 486	0	0	0	0	0	0	**2 703 510**
Amounts due from banks	0	1 184 249	10 000	10 000	0	0	0	0	**1 204 249**
Financial assets held for trading	0	12 432 967	39 339	44 443	5 275	12 548	4 226	31 612	**12 570 410**
Derivative financial instruments	562 385	0	0	0	0	0	0	0	**562 385**
Investment securities	80 895	3 346 353	169 344	230 464	0	0	0	0	**3 827 055**
Loans and advances to customers	0	18 606 792	14 598 286	80 117	225 019	11 993	166 699	240	**33 689 146**
Other financial assets	171 618	0	0	0	0	0	0	0	**171 618**
Liabilities									
Amounts due to banks and other monetary institutions	0	2 580 610	5 317 152	0	27 800	0	10 432	0	**7 935 995**
Derivative financial instruments	1 478 611	0	0	0	0	0	0	0	**1 478 611**
Amounts due to customers	0	20 108 777	8 849 753	6 007 016	3 719 080	68 254	945	355	**38 754 180**
Subordinated liabilities	0	404 336	320 452	0	0	0	0	0	**724 789**
Liabilities from issuance on debt securities	0	0	0	501 825	0	0	0	0	**501 825**
Other financial liabilities	281 707	0	0	0	0	0	0	0	**281 707**
Contingent liabilities									
Guarantee liabilities granted	1 884 362	0	0	0	0	0	0	0	**1 884 362**
Financial liabilities granted	8 122 312	0	0	0	0	0	0	0	**8 122 312**

Risk management (cont.)

The Bank's exposure to interest rate risk

As at 31 December 2014	Non-interest bearing	1M	3M	6M	12M	2Y	5Y	>5Y	Total
Assets									
Cash and balances with the Central Bank	1 757 367	926 508	0	0	0	0	0	0	**2 683 875**
Amounts due from banks	0	563 385	65 000	0	0	0	0	0	**628 385**
Financial assets held for trading	0	157 063	96 283	6 711	72 238	12 572	6 488	10 268	**361 623**
Derivative financial instruments	900 213	0	0	0	0	0	0	0	**900 213**
Investment securities	27 081	10 384 100	2 102 906	0	0	0	0	0	**12 514 086**
Loans and advances to customers	0	19 427 443	15 048 502	58 499	58 000	6 776	20 327	97 405	**34 716 952**
Other financial assets	128 502	0	0	0	0	0	0	0	**128 502**
Liabilities									
Amounts due to banks and other monetary institutions	0	3 960 735	7 214 603	30 863	8 600	28 000	0	0	**11 242 801**
Derivative financial instruments	1 124 388	0	0	0	0	0	0	0	**1 124 388**
Amounts due to customers	0	22 039 860	8 821 332	1 023 640	1 817 984	59 675	1 401	638	**33 764 529**
Subordinated liabilities	0	0	320 006	0	0	0	0	0	**320 006**
Liabilities from issuance on debt securities	0	0	0	501 960	0	0	0	0	**501 960**
Other financial liabilities	241 007	0	0	0	0	0	0	0	**241 007**
Contingent liabilities									
Guarantee liabilities granted	2 019 923	0	0	0	0	0	0	0	**2 019 923**
Financial liabilities granted	4 454 747	0	0	0	0	0	0	0	**4 454 747**

Risk management (cont.)

44.4. Operational risk

Operational risk is defined as a risk of incurring a loss due to unadjusted or unreliable processes, people or systems, or due to external events. This definition includes legal risk, but it does not include strategic risk or reputation risk.

For the purposes of calculating the capital requirement for operational risk, the Bank uses the Standardized Approach method, which determines both the method for calculating the capital requirement and the operational risk management requirements.

The aim of the operational risk management is to increase safety of the Bank's operations by implementing effective mechanisms for the identification, assessment and quantification, mitigation, monitoring and reporting operational risk.

The Bank's operational risk management policy should reflect the Bank's operational risk profile and ensure that adequate measures are taken to:

- control the risk at an acceptable level adequate to the Bank's size and the nature of its operations;
- eliminate the reasons and the adverse effects of operational events;
- minimize losses incurred as a result of operational events;
- improve the effectiveness of processes;
- shape the awareness of operational risk.

Bank's operational risk appetite is defined as:

- the value of internal capital allocated to operational risk
- the estimated value of operating losses from operational events identified in the Bank within 12 months.

The main principles of operational risk management in the Bank are as follows:

- the operational risk owners are the managers of business lines and the individual organizational units;
- the operational risk management process is supervised by the Operational Risk Steering Committee;
- there is an independent operational risk management function in place at the Risk Management Department;
- the internal audit function performs an independent review of the operational risk management procedures and process;
- operational risk data is collected regularly;
- exposures are estimated and operational risk is reported;
- actions are taken to reduce operational risk to an acceptable level.

Risk management (cont.)

In accordance with the Operational Risk Management Policy, the following methods and tools for operational risk management are used in the Bank:

- collecting information on operational events;
- monitoring of key risk indicators
- scenario analysis for events characterized by low frequency and high severity,
- assessment of operational risk for the key operational risk areas,
- operational risk reporting ensuring regular and timely flow of information to relevant decisive bodies.