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 2016

The Management Board presents the financial statements for the year ended 31 December 2016

Piotr Czarnecki	President of the Management Board, CEO	....
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*
Witold Broniszewski	Member of the Management Board	....
name and surname	*position/function*	*signature*
Łukasz Januszewski	Member of the Management Board	....
name and surname	*position/function*	*signature*
Piotr Konieczny	Member of the Management Board, CFO	....
name and surname	*position/function*	*signature*
Patrycja Zenik-Rychlik	Head of Financial Accounting and Tax Department	....
name and surname	*position/function*	*signature*

Warsaw, 6 March 2017

Table of contents

Table of contents

Table of contents

Statement of profit or loss

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest income		1 589 348	1 634 379
Interest expense		-571 180	-699 488
Net interest income	4	**1 018 168**	**934 891**
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	5	-176 177	-157 428
including Proceeds from sale of receivables		12 754	35 060
Fee and commission income		669 040	668 250
Fee and commission expense		-81 088	-94 420
Net fee and commission income	6	**587 952**	**573 830**
Net income from financial instruments measured at fair value and net foreign exchange result	7	109 542	39 625
Dividend income	19	120	40 986
Result on sale of shares in subsidiary	19	202 313	0
General administrative expenses	8	-1 114 786	-1 236 937
Other operating income	9	12 038	33 622
Other operating expenses	9	-203 425	-21 555
Tax on financial institutions		-148 776	0
Profit before tax		**286 969**	**207 034**
Income tax expense	10	-124 154	-46 959
Net profit		**162 815**	**160 075**

Weighted average number of ordinary shares (in units)	11	248 260	248 260
Profit attributable to the Bank's equity holders per one ordinary share (in PLN)	11	656	645
Weighted average number of diluted shares (in units)	11	248 260	248 260
Profit attributable to the Bank's equity holders per one diluted share (in PLN)	11	656	645

Notes presented on pages 12- 164 are an integral part of the Financial Statements.

Statement of comprehensive income

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Net profit		**162 815**	**160 075**
Other taxable income that may be reclassified to profit or loss, including:		**-41 388**	**51 590**
Valuation of cash-flow hedge derivatives, gross	29	8 860	10 585
Income tax on cash-flow hedge derivatives	29	-1 683	-2 011
Valuation of available for sale financial assets, gross	29	-59 957	53 106
Income tax on available for sale financial assets	29	11 392	-10 090
Total comprehensive income		**121 427**	**211 665**

Notes presented on pages 12- 164 are an integral part of the Financial Statements.

Statement of financial position

Assets	Note	As at 31 December 2016	As at 31 December 2015
Cash and balances with Central Bank	12	1 731 869	2 703 510
Amounts due from banks	13	315 252	1 204 249
Financial assets held for trading	16	8 047 342	12 570 410
Derivative financial instruments	14	466 720	562 385
Investment securities	17	7 947 954	3 827 055
Loans and advances to customers	18	33 868 005	33 689 146
Investments in subsidiaries	19	40 495	527 582
Intangible assets	20	384 023	535 346
Tangible fixed assets	21	118 067	124 997
Deferred income tax assets	10	129 338	156 167
Current income tax receivables		0	2 173
Other assets	22	217 653	265 683
Total assets		**53 266 718**	**56 168 703**

Liabilities and equity	Note	As at 31 December 2016	As at 31 December 2015
Amounts due to banks and other monetary institutions	23	7 433 406	7 935 995
Derivative financial instruments	14	1 546 175	1 478 611
Amounts due to customers	24	36 361 807	38 754 180
Subordinated liabilities	25	332 096	724 789
Liabilities from debt securities issued	26	501 830	501 825
Other liabilities	27	512 731	376 372
Current tax liabilities		63 279	0
Provisions	28	146 206	149 170
Total liabilities		**46 897 530**	**49 920 942**
Equity			
Share capital	29	2 256 683	2 256 683
Supplementary capital		2 287 790	2 287 790
Other capital and reserves	29	1 002 488	1 018 877
Retained earnings	29	822 227	684 411
Total equity		**6 369 188**	**6 247 761**
Total liabilities and equity		**53 266 718**	**56 168 703**

Notes presented on pages 12- 164 are an integral part of the Financial Statements.

Statement of changes in equity

	Note	Share capital	Supplementary capital	Other capital and reserves	Retained earnings Prior years result	Net profit/(loss) for the year	Total
As at 1 January 2016		**2 256 683**	**2 287 790**	**1 018 877**	**524 336**	**160 075**	**6 247 761**
Valuation of available for sale financial assets, net		0	0	-48 565	0	0	-48 565
Valuation of cash-flow hedge derivatives, net		0	0	7 177	0	0	7 177
Net profit for the year		0	0	0	0	162 815	162 815
Total comprehensive income		**0**	**0**	**-41 388**	**0**	**162 815**	**121 427**
Transfer of net result to retained earnings		0	0	0	160 075	-160 075	0
Transactions with owners		**0**	**0**	**25 000**	**-25 000**	**0**	**0**
Transfer of net result to general banking risk reserve		0	0	25 000	-25 000	0	0
As at 31 December 2016	29	**2 256 683**	**2 287 790**	**1 002 488**	**659 412**	**162 815**	**6 369 188**

Notes presented on pages 12- 164 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 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 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 310 December 2015	29	**2 256 683**	**2 287 790**	**1 018 877**	**524 336**	**160 075**	**6 247 761**

Notes presented on pages 12- 164 are an integral part of the Financial Statements.

Statement of cash flows

Operating activities	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit before tax		**286 969**	**207 034**
Adjustments:		**320 791**	**331 008**
Depreciation and amortization	20,21	98 591	126 337
Impairment of tangible and intangible fixed assents and investement securities		152 972	1 126
Unrealized foreign exchange differences		276 754	209 636
Gains on sale of shares in subsidiary		-202 313	0
Transfer of interest and dividend from investing and financing activities		-15 980	-3 054
(Gains)/loss on sale, liquidation of tangible and intangible fixed assets		10 767	-3 037
Changes in assets and liabilities		**2 823 279**	**-9 100 681**
Interbank placements, loans and advances to other banks	35	916 695	-614 240
Financial assets held for trading	35	4 388 013	-12 387 979
Derivative financial instruments	35	-12 603	501 474
Loans and advances to customers	35	-1 250 459	-99 617
Other assets		26 819	-9 062
Amounts due to banks and other monetary institutions	35	-280 952	-2 671 586
Amounts due to customers	35	-1 919 655	5 559 147
Other liabilities		136 359	46 944
Provisions		-2 964	-52 637
Dividends received		120	40 986
Income tax paid/received		5	-1 537
Interest received		1 416 178	1 533 920
Interests paid		-594 277	-946 494
Net cash flow from operating activities		**3 431 039**	**-8 562 639**

Notes presented on pages 12 – 164 are an integral part of the Financial Statements.

Statement of cash flows (cont.)

Investing activities	***Note***	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
Proceeds from sale of investment securities		1 452 524	16 258 256
Proceeds from sale of fixed assets and intangible assets		1 131	7 427
Proceeds from sale of shares in subsidiaries		695 000	0
Purchase of investment securities		-5 531 972	-7 447 638
Purchase of investments in subsidiaries		-5 600	-7 500
Purchase of fixed assets and intangible assets		-79 006	-68 890
Net cash flow from investing activities		**-3 467 923**	**8 741 655**
Financing activities			
Inflows from subordinated liabilities and long-term bank loans		3 124 670	2 782 633
Outflows from repayment of subordinated liabilities and long-term bank loans		-3 996 716	-2 943 394
Outflows from payment of interest on debt securities issued		-15 390	-15 890
Net cash flow from financing activities		**-887 436**	**-176 651**
Net decrease in cash and cash equivalents		**-924 320**	**2 365**
Cash and cash equivalents at the beginning of the year	35	2 789 986	2 787 621
Cash and cash equivalents at the end of the year	***35***	**1 865 666**	**2 789 986**

Notes presented on pages 12 – 164 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 2016 to 31 December 2016 .

The financial statements have been prepared by Raiffeisen Bank Polska S.A. with its registered office in Warsaw, 00-844, Grzybowska 78 Street, registered in the National Court Register as a joint-stock company under the reference number KRS 0000014540 by the District Court for the capital city of Warsaw, XII Commercial Department of National Court Register.

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

The Bank operates in retail banking, corporate banking and investment banking as well as in factoring area in Poland and employed 4 948 employees as at 31 December 2016 and 5 395 employees as at 31 December 2015.

These separate financial statements should be read in conjunction with the consolidated financial statements of the Group for the period from 1 January 2016 to 31 December 2016 in order to obtain complete information on the financial standing, results and cash flows of the Group as a whole.

Approval of these financial statements

The Bank's Management Board approved these financial statements on 6 March 2017.

As at 31 December 2016 the Bank's Management Board consisted of:

Piotr Czarnecki	– President of the Management Board, CEO
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, COO
Łukasz Januszewski	– Member of the Management Board
Piotr Konieczny	– Member of the Management Board, CFO

Notes to the financial statements (cont.)

As at 31 December 2016, the Bank's Supervisory Board consisted of:

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

During the financial year ended 31 December 2016 the following changes in the Management and Supervisory Boards took place.

On 18 October 2016 Marek Patuła resigned from the position of the Management Board Member responsible for risk management. On 7 November 2016 Witold Broniszewski was conditionally appointed by the Bank's Supervisory Board on his place. The appointment will be effective from the date of the Polish Financial Supervision Authority's approval for appointment of Witold Broniszewski as a Member of the Management Board supervising the management of the significant risk relating to the Bank's activities.

As at 31 December 2016 Bank was waiting for the Polish Financial Supervision Authority's decision, and supervision of the management of the significant risk relating to the Bank's activities was assigned temporarily to the President of the Management Board.

On 14 February 2017 Polish Financial Supervision Authority took a decision about the appointment of Witold Broniszewski as a Member of the Management Board supervising the management of the significant risk relating to the Bank's activities.

On 22 December 2016 Ryszard Drużyński resigned from the position of the Vice-President of the Management Board responsible for the operations and IT management as of 31 January 2017.

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 2016 to 31 December 2016. Comparative figures have been presented for the period from 1 January 2015 to 31 December 2015. 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.

Financial data presented in the financial statements of the Bank were prepared assuring its comparability.

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 2016 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,

Notes to the financial statements (cont.)

- The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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 do not 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

Notes to the financial statements (cont.)

effective interest rate is the rate that discounts future cash payments or receipts in the expected period to the expiry of the financial instrument 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 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 interests 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, operations relating to debit cards service, brokerage, factoring activities 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.

Notes to the financial statements (cont.)

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,

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.

Notes to the financial statements (cont.)

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 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 provisions for remuneration returns and element of the margin decreasing 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 quarterly). 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.

Notes to the financial statements (cont.)

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 of the margin decreasing of insurer is settled using straight-line method during the period of insurance protection.

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.

Notes to the financial statements (cont.)

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.

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. Recognition, presentation and valuation of financial assets and liabilities

All financial instruments are recognized using settlement date accounting, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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.

Notes to the financial statements (cont.)

2.6. Financial assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention when acquiring them.

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, not designated as hedging items according to IAS 39.

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 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 with 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. Derecognition of securities is based on average price.

Notes to the financial statements (cont.)

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 available for sale contain debt and equity instruments for which the holding period has not been determined. They serve the liquidity management or are bought and sold in the response to changes in market prices.

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 in line "Net income from financial instruments measured at fair value and net foreign exchange result".

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.

Notes to the financial statements (cont.)

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.

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.

Notes to the financial statements (cont.)

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 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,

Notes to the financial statements (cont.)

- 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,
- 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,

Notes to the financial statements (cont.)

- 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 the following 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.

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.

Notes to the financial statements (cont.)

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

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.

Notes to the financial statements (cont.)

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.

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:

Notes to the financial statements (cont.)

- 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 2016 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:

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.

Notes to the financial statements (cont.)

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.

- 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.

Notes to the financial statements (cont.)

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' 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.

Notes to the financial statements (cont.)

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.

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.

Notes to the financial statements (cont.)

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 its fair value is positive and a liability if its 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.

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.

Notes to the financial statements (cont.)

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.

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

Notes to the financial statements (cont.)

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.

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”.

Notes to the financial statements (cont.)

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 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.

Notes to the financial statements (cont.)

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 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.

Notes to the financial statements (cont.)

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.

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.

Notes to the financial statements (cont.)

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.

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 in Intangible assets specifically:

- software licences,
- copyright laws to computer software or other work,
- cost of completed development projects,

Notes to the financial statements (cont.)

- 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:

- 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.

Notes to the financial statements (cont.)

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.

The amortization period which are applied for the basis categories of intangible assets are as follows:

Brand "Polbank"	undefined useful life
The goodwill	undefined useful life
Customer's relationships	value conected with loans - 10 years
	value conected with customers - 5 years
Computer software	5 - 15 years

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 2016 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 15 years).

Notes to the financial statements (cont.)

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.

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 – 10 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.

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.

Notes to the financial statements (cont.)

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 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.

Notes to the financial statements (cont.)

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 of current year's undistributed profit and retained past results, and the following items:

- 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

Notes to the financial statements (cont.)

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.

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.

Notes to the financial statements (cont.)

Unsettled clients' transactions 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.

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 2016, 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
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. The Amendments, when initially applied, did not have an 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 These changes did not have a significant impact on the financial statements of the Bank.
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. These changes did not have an impact on the financial statements of the Bank.

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
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 Bank does not expect the Amendments to have significant impact on the financial statements. 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. These changes did not have an impact on the financial statements of the Bank.
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.
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	Yes	The Amendments, related to financial reporting of investment entities, address the following matters: • Consolidation of intermediate investment entities

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
				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. These changes did not have an impact on the financial statements of the Bank.
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. These changes did not have an impact on the financial statements of the Bank.

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
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: · 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. These changes did not have an impact on the financial statements of the Bank.

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 (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. These changes did not 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	Yes	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 and new methodology for hedge accounting. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables used to classify financial assets. Classification of financial assets, according to IFRS 9, should be made on their initial recognition in the balance sheet and should be based on: - business model in the financial assets management; - characteristics of the contractual cash flows, i.e. whether contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding (solely payments of principal and interest, "SPPI"). Under the new standard, debt financial assets are to be classified on initial recognition into one of three categories: - financial assets measured at amortized cost (held to collect contractual cash flows); - financial assets measured at fair value through profit or loss (trading assets); or - financial assets measured at fair value through other comprehensive income (OCI; held to collect contractual cash flows or to be sold). Investments in the equity instruments according to IFRS 9 are to be classifies as: - financial assets measured at fair value through profit or loss (trading assets); or - financial assets measured at fair value through other comprehensive income (when Bank irrevocably elects such presentation).

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 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 measured at amortized cost impairment requirements, IFRS 9 replaces the "incurred loss" impairment model in IAS 39 with an "expected credit loss" model. The new approach aims to address concerns about "too little, too late" provisioning for impairment losses. 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. 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.

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
				Changes introduced by IFRS 9 require implementation of credit risk assessment model more complex and using significantly more extensive amount of data compared to models built according to IAS 39. Implementation of new impairment calculation methodology requires changes in the IT systems and processes currently functioning in the Bank. In connection with these changes, in the year 2016 the Bank started the project, which objective is to: implement models for credit risk parameters according to IFRS 9, introduce changes in the IT systems used in the impairment and provisions calculation and adjust Bank's internal processes, including process for implementation of new products. In the scope of the project there is also gathering of the information required to classify financial assets to the appropriate valuation category. In the year 2017 it is planned to start a parallel run of impairment and provisions calculations according to IFRS 9, taking into account classification to appropriate valuation category and valuation of applicable financial assets to fair value. As far as classification is concerned, for financial instruments held in business model aiming at collecting contractual cash flows, Bank analyzes the characteristics of cash flows, in order to identify instruments, which do not meet SPPI test and according to IFRS 9 have to be valued to fair value through profit or loss. The analyzed clauses or characteristics are among others coefficient for the interest rate, inconsistency between frequency of interest rates reset and market periods in which these rates are valid. Currently, according to IAS 39 such financial assets were valued at amortized cost. At the date of the preparation of these financial statements the Bank did not have reliable and precise estimation of impact of changes being result of implementation of IFRS 9.

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 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 - 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.
IFRS 15 *Revenue from Contracts with Customers and Amendements to IFRS 15: Effective date of IFRS 15*	May 2014/ September 2015	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 Bank.

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
Clarifications to IFRS 15 (Revenue from Contracts with Customers)	April 2016	Financial year starting on or after 1 January 2018	No	The amendments to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard. The amendments clarify how to: Identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract. Determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided). Determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. As at the date of the financial statements a reliable estimation of the Amendments impact has not been prepared by the Bank.

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
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	The effective date was deferred indefinitely	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.
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.

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
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.
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.
Amendments to IFRS 2 Share-based Payments	June 2016	Financial year starting on or after 1 January 2018	No	The amendments provide requirements on the accounting for: a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, b) share-based payment transactions with a net settlement feature for withholding tax obligations; and c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The above described changes are not expected to have a 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
Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts	September 2016	Financial year starting on or after 1 January 2018	No	The Amendments provide two options for the entities: - deferral approach - an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts, - an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from changes in valuation of designated financial assets applying IFRS 9 before new Insurance contracts standard is effective (the overlay approach) The above described changes are not expected to have a significant impact on Bank's financial statements.
Annual Improvements to IFRS Standards 2014-2016	December 2016	Financial year starting on or after 1 January 2017 (for IFRS 12)/ Financial year starting on or after 1 January 2018 (for IAS 28 and IFRS 1)	No	The Annual Improvements to IFRS 2014-2016 make amendments to Standards with appropriate changes to other Standards and Interpretations. Main changes are: - Changes to IFRS 12 – Disclosures of interests in other entities clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5. - Changes to IFRS 1 First-time adoption of International Financial Reporting Standards, proposed change relates to deletion of the short-term exemptions in paragraphs E3-E7, because they relate to prior periods. - Changes to IAS 28 Investments in associates and joint ventures clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity (mutual funds or custody funds), is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition The above described changes are not expected to have a 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
Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration	December 2016	Financial year starting on or after 1 January 2018	No	The Interpretation presents instructions how to determine the date of the transaction and thus which exchange rate should be used to translate, on initial recognition, the advance consideration is paid or received. The Interpretation relates both to transactions generating income and initial recognition of transactions made in foreign currencies. The above described changes are not expected to have a significant impact on Bank's financial statements.
Amendments to IAS 40 Transfers of Investment Property	December 2016	Financial year starting on or after 1 January 2018	No	According to the proposed Amendments, the entity transfers asset to or from investment property when, and only when there was a change in use of this asset. It was proposed to remove the exhaustive list of situations when transfer is required currently presented in the Standard and include the non-exhaustive list of examples of evidence of change in use. The above described changes are not expected to have a 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 and were consistent with these adopted in the prior reporting period.

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.

3.2. Impairment of the loan portfolio

The monitoring of customers in the corporate portfolio is performed based on periodic individual analysis of exposures of this portfolio. An individual counterparty/borrower is treated as one exposure. Impairment allowances are estimated on an individual basis. In calculating impairment allowances, the Bank uses the assessments as to which indicators of impairment have been identified, 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 corporation portfolio of loans and advances for which impairment allowances were recognized based on an individual analysis of future cash flows related to repayment and recovery from collateral. As at 31 December 2016 the base value of the allowances calculated under the individual assessment model for balance and off balance sheet exposures is PLN 552 269 thousand (PLN 726 885 thousand as at 31 December 2015), and the base value of discounted recoveries from collaterals and cash repayments is PLN 1 186 875 thousand (PLN 1 173 739 thousand as at 31 December 2015).

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%
As at 31 December 2016			
No change in inflows from collateral	552 269	545 734	565 506
Inflows from collateral up by 10%	522 488	517 093	
Inflows from collateral down by 10%	601 263		617 239
As at 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

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 market parameters of this risk, 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 affecting the amount of the provision is the adopted discount rate which is based on the return on risk-free

Notes to the financial statements (cont.)

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 242 ths and PLN 270 ths respectively (as at 31 December 2015 a decrease/increase in the provision of ca. PLN 264 ths and PLN 295 ths, respectively).

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 recognized as a result of an acquisition of Polbank EFG S.A. – impairment test

As at 31 December 2016 Bank performed impairment test of the intangible assets recognized as a result of an acquisition, 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.

In the last year there was a series of events having negative impact on the calculation of the recoverable amount of both goodwill and "Polbank" brand:

- higher capital requirements resulting from new regulations and regulator's requirements, including restrictions in respect of dividend payout,

Notes to the financial statements (cont.)

- additional tax burdens and payments imposed on banks,
- sustained low level of market interest rates having negative impact on profitability of loans granted.

Taking into account the above factors, the Bank updated parameters used in the models for calculation of recoverable amount to current observable market conditions. As a result of the usage of these updated parameters in the calculation of the recoverable amount impairment of goodwill and "Polbank" brand was identified.

Impairment test - goodwill

As at 31 December 2016 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 9.04% nominal (as at 31 December 2015 the discount rate amounted to 7.02%). The Capital Asset Pricing Model, risk-free interest rate, beta-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.

As the result of comparison of the recoverable value of goodwill with its carrying value, the impairment of PLN 32 966 thousand was identified. At the same time the Bank written of goodwill, because after impairment was recognized its carrying value amounted to zero zlotys.

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, which 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 and residual value. Due to indefinite period of income generated by „Polbank" brand, the forecast period of future financial cash flows and residual value covers 10 years and is based on assumptions which according to the Management Board reflect the future Bank's activity.

Notes to the financial statements (cont.)

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 9.04% nominal rate (as at 31 December 2015 the required return of equity amounted to 7.02%). 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 at10.04% nominal rate (as at 31 December 2015 amounted to 8.02%).

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.

The impairment test of „Polbank" brand as at 31 December 2016 resulted in the identification of impairment of PLN 86 000 thousand.

As at 31 December 2016 the value in use of "Polbank" brand was estimated at PLN 114 000 thousand (as at 31 December 2015 PLN 308 693 thousand). Change in the discount rate by +/- 1 b.p. would result in decrease / increase of the value in use respectively by PLN 19 838 thousand and PLN 28 945 thousand (as at 31 December 2015 respectively PLN 74 287 thousand and PLN 136 096 thousand). Change in the long term rate of cash flows increase in the analyzed period by +/- 1 b.p. would result in increase / decrease of the value in use respectively by PLN 22 599 thousand and PLN 15 585 thousand (as at 31 December 2015 respectively PLN 110 808 thousand and PLN 60 714 thousand).

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.

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.

Notes to the financial statements (cont.)

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 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. Net interest income

Interest income	For the year ended 31 December 2016	For the year ended 31 December 2015
Loans and advances to banks	19 547	21 019
Loans and advances to customers	1 102 690	1 136 383
Financial assets designated at fair value	139 976	176 757
Derivative hedging instruments	189 000	212 292
Reverse repo	9 567	17 445
Investment securities	128 568	70 483
Total	**1 589 348**	**1 634 379**
Interest expense		
Banking deposits	-13 194	-11 557
Customer deposits	-433 486	-564 315
Derivative hedging instruments	-5 207	-4 916
Repo intruments	-6 585	-10 285
Loans and advances received (including subordinated loans)	-97 313	-92 648
From issuance of own bonds	-15 395	-15 767
Total	**-571 180**	**-699 488**
Net interest income (including):	**1 018 168**	**934 891**
Total interest income from financial assets other than designated at fair value through profit or loss	1 260 372	1 245 330
Total interest expense related to financial assets other than designated at fair value through profit or loss	-565 973	-694 572

Interest income from financial assets with impairment in 2016 equalled to PLN 43 205 thousand (in 2015 PLN 43 749 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 2016	Impairment allowances and provisions at the beginning of the year	Increases: Impairment allowance recorded	Increases: Foreign exchange differences	Decreases: Impairment allowance reversal	Decreases: Write-off of assets	Decreases: Sale of receivables	Decreases: Reclassification	Decreases: Foreign exchange differences	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
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items valued with individual method											
Amounts due from banks	0	0	0	0	0	0	60	0	60	0	0
Amounts due from individuals	17 862	13 558	0	-14 780	-419	0	-2 634	-335	13 252	0	1 222
Amounts due from micro customers	23 761	17 995	0	-24 246	0	0	-547	-207	16 756	0	6 251
Amounts due from large enterprises	705 251	285 550	0	-227 276	-121 304	-91 866	1 658	-3 613	548 399	5 897	-52 377
Amounts due from SME	43 394	11 052	0	-5 227	-4 441	-3 566	1 463	-11	42 664	247	-5 578
Off-balance sheet items	41 228	26 084	647	-42 406	0	0	0	0	25 554	0	16 322
Investment securities	0	27 159	0	0	0	0	0	0	27 159	0	-27 159
Shares in subsidiaries	17 951	0	0	0	0	0	0	0	17 951	0	0
Total	**849 448**	**381 398**	**647**	**-313 935**	**-126 164**	**-95 432**	**0**	**-4 166**	**691 796**	**6 144**	**-61 319**
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	165	31	0	-155	0	0	0	-1	40	0	124
Amounts due from individuals	596 350	287 521	8 662	-201 312	0	-11 085	-2 248	0	677 888	5 701	-80 508
Amounts due from micro customers	297 803	109 443	1 802	-57 316	0	-2 002	2 409	0	352 139	909	-51 218
Amounts due from large enterprises	75 340	26 986	0	-40 306	0	0	-33	-236	61 751	0	13 320
Amounts due from SME	4 724	2 369	0	-2 962	0	0	-128	-3	4 000	0	593
Amounts due from the public sector	96	388	0	-35	0	0	0	0	449	0	-353
Off-balance sheet items	8 556	2 901	72	-6 085	0	0	0	0	5 444	0	3 184
Total	**983 034**	**429 639**	**10 537**	**-308 171**	**0**	**-13 087**	**0**	**-240**	**1 101 711**	**6 610**	**-114 857**
Total allowances and provisions	**1 832 482**	**811 037**	**11 184**	**-622 106**	**-126 164**	**-108 519**	**0**	**-4 405**	**1 793 508**	**12 754**	**-176 177**

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

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	Foreign exchange differences	Impairment allowance reversal	Write-off of assets	Sale of receivables	Reclassification	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.)

6. Net fee and commission income

	For the year ended 31 December 2016	For the year ended 31 December 2015
Fee and commission income		
From transaction margin on client's foreign exchange dealings and derivatives	276 353	286 635
From investment and insurance products	98 165	79 655
From debit and credit cards	79 924	84 592
From handling of cash and bank transfers	58 025	58 894
From loans and advances, not being part of the effective interest rate	54 093	52 146
From maintaining of bank accounts	39 132	43 761
From custody and brokerage activities	31 883	32 223
From handling of letters of credit and guarantees	28 222	29 346
Other	3 243	998
Total	**669 040**	**668 250**
Fee and commission expense		
From payment cards and atm transactions	-29 158	-37 481
From handling of cash and bank transfers	-16 610	-16 918
From transaction margin on client's foreign exchange dealings and derivatives	-10 495	-10 502
From investment and insurance products	-7 854	-5 348
From loans and advances, not being part of the effective interest rate	-7 729	-6 184
From custody and brokerage activities	-4 604	-4 077
From maintaining of bank accounts	-3 627	-11 956
Other	-1 011	-1 953
Total	**-81 088**	**-94 420**
Net fee and commission income, including	**587 952**	**573 830**
Total commission income related to financial assets other than designated at fair value through profit or loss	360 804	349 392
Total commission expense related to financial assets other than designated at fair value through profit or loss	-76 484	-90 343

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 through profit or loss	For the year ended 31 December 2016	For the year ended 31 December 2015
Net income realized and unrealized (without the currency component) on currency derivatives	-46 118	-48 165
Net income realized and unrealized (without the currency component) on interest rate based derivatives	23 782	34 028
Net income realized and unrealized on debt instruments	-2 337	454
Net income realized and unrealized on equity instruments	80 615	0
Total net income from financial instruments measured at fair value through profit or loss	**55 942**	**-13 683**
Net income from financial instruments in hedge accounting		
Fair value hedge	**920**	**526**
Changes in fair value of the hedged instrument	-1 636	-3 514
Changes in fair value of the hedging instrument	2 556	4 040
Cash flow hedge	**5 013**	**-1 010**
Ineffective part of changes in fair value of hedging insturments included in profit or loss	5 013	-1 010
Total net income from financial instruments in hedge accounting	**5 933**	**-484**
Net foreign exchange result		
Realized and unrealized foreign exchange differences arising from the currency component of the valuation of derivatives	-165 029	-739 598
Realized and unrealized foreign exchange gains/losses on the valuation of other assets and liabilities	212 696	793 390
Total net foreign exchange result	**47 667**	**53 792**
Total net income from financial instruments measured at fair value and net foreign exchange result	**109 542**	**39 625**

“Net income realized and unrealized (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 realized and unrealized (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”.

In “Net income realized and unrealized on equity instruments” was presented result on the settlement of the acquisition of Visa Europe Limited by Visa Inc., more details on this settlement is presented in note 17.

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

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

“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.

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 2016	For the year ended 31 December 2015
Salaries and wages	-458 763	-417 292
Social insurance costs, including:	-67 215	-71 373
Other employee benefits	-13 113	-14 264
Total	**-539 091**	**-502 929**

8.2. Other administrative expenses

	For the year ended 31 December 2016	For the year ended 31 December 2015
Other administrative expenses		
Maintenance and rental of buildings	-132 665	-140 162
including lease installments	-100 660	-109 702
IT and telecommunication costs	-95 560	-102 007
Contribution and payments to Bank Guarantee Fund	-96 769	-164 762
Consulting services	-22 596	-13 840
Marketing costs	-23 621	-32 295
Training costs	-11 395	-15 014
Costs of other lease installments	-4 225	-5 880
Borrowers' Support Fund	0	-39 280
Other sundry costs	-90 273	-94 431
Depreciation cost including:	-98 591	-126 337
depreciation cost on tangible fixed assets	-37 746	-47 559
depreciation cost on intangible fixed assets	-60 845	-78 778
Total	**-575 695**	**-734 008**

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

9. Other operating income and expense

Other operating income	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue from non-banking activities	2 505	3 473
Release of other provisions	4 092	5 250
Income on disposal of property, plant and equipment	1 991	9 693
Reversal of impairment allowance on other assets	16	93
Other operating income	3 434	15 113
Total	**12 038**	**33 622**

At 2015 year the Bank sold resigned from pre-emption right to new headquarters in return for the amount of PLN 8 492 thousand, which is presented in "Other operating income - other".

Other operating expense	For the year ended 31 December 2016	For the year ended 31 December 2015
Expenses on allocation to other provisions	-26 786	-2 995
Impairment of fixed assets	-125 811	0
assets	-12 758	-6 656
Debt collection costs	-12 866	-6 929
Other operating expenses	-25 204	-4 975
Total	**-203 425**	**-21 555**

According to the contract relating to the sale of shares in Raiffeisen-Leasing Polska S.A. (RLPL) dated 31 March 2016 between the Bank (seller) and Raiffeisen Bank International (acquirer), the Bank is required to reimburse to RBI potential losses related to ongoing tax proceedings against RLPL started before the sale date, if any, in particular including due to the legal dispute relating to income tax settlements of RLPL for the year 2006 connected with investments in Singapore bonds.

On 19 October 2016 the Supreme Administrative Court overruled RLPL's appeals against the Voivodeship Administrative Court's in Warsaw dated 12 February 2016, keeping to the force decision of the Tax Office Director in Warsaw, relating to tax obligation in the corporate income tax for the year 2006. The decision closes legal dispute. The Bank's liability to RBI due to the above describe issue amounted to PLN 12.9 million, as of 31 December 2016 was presented in "Other liabilities". Till the date of the approval of these financial statements the liability to RBI was settled.

In "Other operating income" there was presented also result on the settlement of the legal dispute relating to Raiffeisen Bank Polska S.A. income tax liabilities, more details are presented in note 22.

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

10. Income tax expense

For the year ended 31 December 2016	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:	20 372	862	0	21 234
Interest on deposits	18 289	-7 517	0	10 772
Interest on securities and derivatives	2 083	4 466	0	6 549
Discount on securities	0	3 913	0	3 913
Fair value of derivatives (without the currency component) and securities	11 244	28 228	503	39 975
Commission settled using effective interest rate	36 956	9 648	0	46 604
Impairment allowance not recognized as tax-deductible costs	146 768	-9 432	0	137 336
Other (including impairment on other assets)	1 414	-741	0	673
Deferred costs	31 446	254	0	31 700
Other	16 098	-227	0	15 871
Tax loss	81 875	-40 529	0	41 346
Deferred tax asset, gross	**346 173**	**-11 937**	**503**	**334 739**
Deferred tax provision				
Interest accrued, receivable (income), including:	39 770	16 669	0	56 439
Interest on loans	26 266	7 999	0	34 265
Interest on securities and derivatives	12 446	9 613	0	22 059
Discount on securities	1 058	-943	0	115
Fair value of derivatives (without the currency component) and securities	20 072	23 162	-9 206	34 028
Commission settled using effective interest rate	51 312	4 255	0	55 567
Difference between depreciation for tax and accounting purposes	28 360	5 649	0	34 009
Other	50 492	-25 134	0	25 358
Deferred tax provision, gross	**190 006**	**24 601**	**-9 206**	**205 401**
Deferred tax charge	**156 167**	**-36 538**	**9 709**	**129 338**
Deferred tax asset, net	**156 167**	**-36 538**	**9 709**	**129 338**

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

For 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	17 579	-1 480	0	16 099
Tax loss carried forward	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	52 833	-2 340	0	50 493
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**

Bank's tax calculations for the year 2014 and 2015 were closed with tax loss, for the year 2014 of PLN 189.2 million, for the year 2015 – PLN 246 million. According to tax regulations in the following consecutive five tax years, income can be lowered by the tax loss incurred in the tax year. The utilization in each of these years cannot be higher that 50% of the loss. In the year 2016 the Bank utilized 50% of the loss from the year 2014 and 50% of the loss from the year 2015. According to the Bank's estimates, the remaining part of the loss would be utilized in the year 2017.

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

Calculation of effective tax rate	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit before tax	286 969	207 034
Current income tax at the local tax rate on profit before tax (19%)	-54 524	-39 336
Tax effect of non-deductible expenses	-69 530	-15 394
Tax effect of non-taxable income, including:	0	7 771
effect of dividend income	0	7 771
Tax effect on taxable income and not accounting income	-100	0
Total income tax charge	**-124 154**	**-46 959**

Reconciliation of tax referred to income statement	For the year ended 31 December 2016	For the year ended 31 December 2015
Current income tax	-63 786	0
Correction of current income tax regarding previous years	-23 830	-1 368
Deferred tax	**-36 538**	**-45 591**
Total income tax charge	**-124 154**	**-46 959**

Significant change in the income tax charge for the year ended 31 December 2016 compared to the year ended 31 December 2015 is due to actual payments of tax from financial institutions for the year 2016. This tax is due for the first monthly period starting February 2016. Tax from financial institutions is not tax expense and have negative impact on effective tax rate.

The regulations concerning value added tax, corporate income tax and liabilities relating to social security are subject to frequent changes. These frequent changes result in lack of appropriate benchmarks, inconsistent interpretations and sparse established precedents that could be applied. The mandatory regulations contain ambiguities resulting in distinction in opinions, regarding the legal interpretation of tax regulation both between state agencies and state agencies and companies.

The tax settlement and other areas of activities (eg. customs and currency issues) could be a subject of control by bodies that are entitled to impose high penalties and fines, and any additional tax liabilities consequent on control must be paid together with high interest. These conditions cause that tax risk in Poland is higher than in countries with more mature tax system.

Consequently the amounts reported and disclosed in the financial statements may change in the future as a result of final decisions of the tax authority .

On 15 July 2016 changes to the Tax Code have been introduced to take account of the standing orders of the General Anti-Abuse Rule (GAAR). GAAR is to prevent the information and use of artificial legal structure created in order to avoid payment of tax in Poland. GAAR defines tax avoidance operation made primarily in order to achieve a tax advantage contrary to the particular circumstances with the object and purpose of the regulations of the Tax Act. According to the GAAR such activities does not result in the achievement of

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

tax advantage if the action was artificial. Any occurrence (i) of unjustified dividing of operation, (ii) the involvement of intermediaries, despite the lack of economic justification or economic rationale, (iii) elements which cancel each other out or compensate, and (iv) other activities of a similar importance to the previously mentioned, may be treated as a condition for the existence of artificial activities covered by GAAR. New regulations will require much greater judgment when assessing the tax implications of particular transactions.

GAAR rule can be applied to the transactions conducted after its coming into force and the transactions that were conducted before GAAR rule went into force, but for which the advantages were or are being achieved after GAAR rule went into effect.

The above rules allow the Polish tax authorities to challenge on the grounds of the tax law legal arrangements and agreements implemented by the taxpayer, such as restructuring and reorganization of the group.

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 2016	For the year ended 31 December 2015
Net profit attributable to the equity holders of the Bank (in PLN thous.)	162 815	160 075
Weighted average number of ordinary shares in the year (in units)	248 260	248 260
Profit per one share (in PLN)	**656**	**645**

11.2. Diluted profit per share

In 2016 and in 2015 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 2016	For the year ended 31 December 2015
Net profit attributable to the equity holders of the Bank (in PLN thous.)	162 815	160 075
Weighted average number of ordinary shares in the year (in units)	248 260	248 260
Diluted profit per one share (in PLN)	**656**	**645**

Notes to the statement of financial position

12. Cash and balances with the Central Bank

	31 December 2016	31 December 2015
Cash at hand	667 808	1 067 024
Balances with the Central Bank	1 064 061	1 636 486
Total	**1 731 869**	**2 703 510**

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 2016 amounted to PLN 1 315 356 thousand and PLN 1 418 802 thousand in December 2015. These funds bear interest of 0.9 of referencing rate of NBP. As at 31 December 2016 the interest rate amounted to 1.35%, no change compared to the previous year.

13. Amounts due from bank

	31 December 2016	31 December 2015
Collateral deposits	139 126	1 051 393
Cash on current accounts	133 797	48 076
Loans and advances to banks	42 429	56 545
Deposits with other banks	0	48 400
Gross amounts due from banks:	**315 352**	**1 204 414**
Impairment allowance	-100	-165
Net amounts due from banks:	**315 252**	**1 204 249**

The average interest rate of deposits with other banks and loans and advances to banks in 2016 amounted to 2.34 % (in 2015 2.02%).

Long term amounts due from banks as at 31 December 2016 amounted to PLN 36 256 thousand (PLN 42 656 thousand as at 31 December 2015).

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 2016 and 2015.

Collateral deposits are collaterals for open derivatives with negative valuation, presented in liabilities in "Derivative financial instruments". Starting from the year 2016 derivatives with negative valuation are being collateralized mainly by securities (see note 32).

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.)

14.2. Forward sale agreement of loan portfolio

Bank signed a contract for servicing and subsequently selling overdue retail loans (after those loans become 90 days overdue).

As per servicing agreement, servicer carries out debt collection, and, after Bank terminates its agreement with debtors, enforcement actions towards debtors. During the course of servicing agreement, the loan contracts are terminated and servicer runs enforcement actions for over 6 months. After that, fund purchases out the remaining part of uncollected liabilities. At a point when credit exposure tranche is transferred to be serviced and sold, economically Bank enters into a forward sale contract, which is classified as asset/liability measured at fair value through income statement according to IAS 39. At inception, forward transaction is measured at fair value and subsequently measured at fair value due to material factors changes determining its fair value, with change in selling price being the most important. All changes in fair value are recognized in Bank's statement of profit or loss.

In the event when Bank reassesses the value of notional amount of forward transaction, Bank adjusts the notional amount, taking into account all changes to valuation of forward contract from statement of profit or loss from previous periods.

Notes to the statement of financial position (cont.)

Fair values of derivative financial instruments are presented below:

	31 December 2016			31 December 2015		
	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)	26 093 194	316 854	243 598	50 118 262	390 702	390 121
Options acquired or sold OTC	2 415 094	20 016	20 506	2 295 927	14 831	14 843
Total foreign exchange derivatives	**28 508 288**	**336 870**	**264 104**	**52 414 189**	**405 533**	**404 963**
Interest rate swaps (IRS)	13 715 389	129 828	83 258	12 822 009	145 236	92 798
Forward Rate Agreement (FRA)	500 000	22	0	3 550 000	3 059	6 103
Total interest rate derivatives	**14 215 389**	**129 850**	**83 258**	**16 372 009**	**148 295**	**98 901**
Loan forward	**79 984**	**0**	**0**	**0**	**0**	**0**
Total	**42 803 661**	**466 720**	**347 362**	**68 786 198**	**553 828**	**503 864**
Derivative financial instruments in cash flow hedges						
FX swaps	1 100 828	0	28 918	1 859 368	4 207	43 265
Currency interest rate swaps (CIRS)	6 256 327	0	1 151 903	6 983 603	4 350	910 946
Total	**7 357 155**	**0**	**1 180 821**	**8 842 970**	**8 557**	**954 211**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	121 549	0	17 992	123 822	0	20 536
Total	**121 549**	**0**	**17 992**	**123 822**	**0**	**20 536**
Total derivative financial instruments	**50 282 365**	**466 720**	**1 546 175**	**77 752 990**	**562 385**	**1 478 611**

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 for the year ended 31 December 2016 and ended 31 December 2015 is presented in the tables below. The information on the ineffective portion of the hedge recognized to the statement of profit or loss is presented in note 7.

	For the year ended 31 December 2016	For the year ended 31 December 2015
Result on change in fair value of hedging instrument	2 556	4 040
Result on change in fair value of hedged instrument	-1 636	-3 514
Result on fair value hedge accounting	**920**	**526**
Interest result on derivative hedge instrument	-5 207	-4 916
	For the year ended 31 December 2016	**For the year ended 31 December 2015**
Nominal value of hedging instrument	121 549	123 822
Nominal value of hedged instrument	121 549	123 822

The Bank applies hedge accounting in cash flow hedges to hedge both interest rate risk and currency risk arising from floating rate loans granted in CHF, EUR and USD and floating interest rate deposits based on WIBOR. 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, EUR, USD

- 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 hedges are presented in the table below.

Notes to the statement of financial position (cont.)

	For the year ended 31 December 2016	For the year ended 31 December 2015
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross)	8 860	10 585
Net interest income on hedging derivatives	189 000	212 292
Ineffective change in fair value of hedging transactions presented in the profit or loss statement.	5 013	-1 010

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

	For the year ended 31 December 2016	For the year ended 31 December 2015
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) at the beginnig of the year	**-46 858**	**-57 443**
Revaluation reserves (revaluation with interests realized within the year)	-150 892	-600 204
Interest result on derivative financial instruments in cash flow hedges	-189 000	-212 292
Result on revaluation of derivative financial instruments in cash flow hedges	353 765	822 071
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an ineffective hedge -	-5 013	1 010
Revaluation reserves (deferred changes in fair value of hedging instruments recognized as an effective hedge - gross) at the end of the year	**-37 998**	**-46 858**

In the amount of PLN 37 998 thousand presented in the revaluation reserves, PLN 38 187 thousand relates to the effective part of cash flow hedge hedged with CIRS transactions. In this amount the part hedging cash flows from loans amounted to PLN 67 629 thousand and part hedging to cash flows from deposits amounted to PLN -105 816 thousand.

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 2016	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)	279 103	821 725	0	0	0	1 100 828
Currency interest rate swaps (CIRS)	0	343 849	851 200	4 867 353	193 925	6 256 327
Total	**279 103**	**1 165 574**	**851 200**	**4 867 353**	**193 925**	**7 357 155**
Derivative financial instruments in fair value hedges						
Interest rate swaps (IRS)	0	0	0	121 549	0	121 549
Total	**0**	**0**	**0**	**121 549**	**0**	**121 549**

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**

Notes to the statement of financial position (cont.)

16. Financial assets held for trading

Financial assets held for trading	31 December 2016	31 December 2015
Bonds and bills issued by the State Treasury	371 779	332 392
Money bills NBP	7 393 915	12 146 112
Corporate bonds	278 225	74 316
Mortgage bonds	3 423	17 590
Total	**8 047 342**	**12 570 410**

Financial assets held for trading bear interest based on floating market interest rates. Non-current receivables arising from financial instruments measured at fair value at the end of 2016 amounted to PLN 620 560 thousand (PLN 384 798 thousand at the end of 2015).

17. Investment securities

For the year ended 31 December 2016	Ath 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	1 964 957	1 487 809	0	22 316	0	0	3 475 082
Total held to maturity	**1 964 957**	**1 487 809**	**0**	**22 316**	**0**	**0**	**3 475 082**
Investment securities available for sale							
Equity investments	80 895	524	-40 837	0	2 611	2 348	45 540
Financial instruments blocked for BFG*	228 816	0	0	593	0	0	229 409
Corporate bonds	319 970	126 798	-112 557	-13 157	0	-27 159	293 895
Treasury bonds	1 232 417	3 916 841	-1 248 697	3 467	0	0	3 904 028
Total available for sale	**1 862 098**	**4 044 163**	**-1 402 091**	**-9 097**	**2 611**	**-24 811**	**4 472 872**
Total	**3 827 055**	**5 531 972**	**-1 402 091**	**13 219**	**2 611**	**-24 811**	**7 947 954**

For the year ended 31 December 2015	Ath 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 money 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**

* treasury bonds

Notes to the statement of financial position (cont.)

As a result of realization of takeover of Visa Europe Limited by Visa Inc. and connected with this transaction sale of the Bank's shares in Visa Europe to Visa Inc., the Bank received from Visa Inc. payment for the sale of the shares of EUR 13.44 million. Cash was recorded on the Bank's account on 21 June 2016.

The Bank also received 4 878 Series C Visa Inc. preferred shares. Series C Visa Inc. preferred shares will be converted into Series A ordinary Visa Inc. shares. Transaction conditions assume gradual conversion of preferred shares. The conversion of all preferred shares should be finalized in the year 2028. Currently preferred shares conversion factor to ordinary shares amounts to 13.952. According to Transaction conditions it can be lowered in the period till 2028.

The Transaction assumes also additional cash payout to the Bank, within "deferred payment", which should be made after three years from transaction finalization, i.e. II quarter of 2019. The total amount of "deferred payment" for all banks selling of shares in Visa Europe Limited to Visa Inc. amounts to EUR 1.12 billion. The Bank share in this amount equals to 0.1035487037%.

Total result on the sale of the above described elements was included in Net income from financial instruments measured at fair value and net foreign exchange result and amounted to PLN 80 615 thousand, and related to:

- payment for the sale of shares received in cash of PLN 59 039 thousand,
- received preferred shares of PLN 16 523 thousand,
- additional cash payout within "deferred payment" of PLN 5 053 thousand.

Valuation of received preferred shares was discounted due to lack of liquidity of these shares, future deferred payment was discounted to current value.

Information on fair value of financial investment is presented in note 37.

As at 31 December 2016 impairment allowance on equity investment amounted to PLN 12 200 thousand (PLN 14 548 thousand at the end of 2015).

Non-current receivables from investment securities as at the end of 2016 amounted to PLN 6 228 391 thousand (PLN 3 622 192 thousand as at the end of 2015).

Notes to the statement of financial position (cont.)

18. Loans and advances to customers

Loans and advances to customers by borrower segment	31 December 2016			31 December 2015		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Individual customers	20 322 980	691 140	19 631 840	19 816 714	614 212	19 202 502
Micro customers	2 860 503	368 895	2 491 608	2 738 324	321 564	2 416 760
Large enterprises	10 955 875	610 151	10 345 724	11 588 614	780 591	10 808 023
including buy-sell-back transactions	0	0	0	40 429	0	40 429
SME	1 358 375	46 665	1 311 710	1 288 397	48 119	1 240 278
Public sector	87 572	449	87 123	21 679	96	21 583
Total	**35 585 305**	**1 717 300**	**33 868 005**	**35 453 728**	**1 764 582**	**33 689 146**

Non-current receivables from loans and advances to customers as at the end of 2016 amounted to PLN 26 972 105 thousand (PLN 26 269 276 thousand as at the end of 2015).

Information on the net provisioning for impairment losses on financial assets and provisions for off-balance sheet items is presented in note 5.

As at 31 December 2016 there were not repurchase transaction (buy sell back) with clients (the value of these transactions amounted PLN 40 429 thousand as at 31 December 2015, fair value of securities bought in these transactions amounted to PLN 40 209 thousand as at 31 December 2015).

Notes to the statement of financial position (cont.)

Loans and advances to customers by quality									
31 December 2016									
	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	19 276 672	52 665	10 518	0	28 940	13 228	1 006 850	625 247	**19 631 840**
Micro customers	2 113 321	14 331	0	0	31 030	16 742	716 152	337 822	**2 491 608**
Large enterprises	9 456 907	46 018	527 026	15 695	971 942	548 438	0	0	**10 345 724**
SME	1 284 748	2 730	18 373	1 270	55 254	42 665	0	0	**1 311 710**
Public sector	87 572	449	0	0	0	0	0	0	**87 123**
Total	**32 219 220**	**116 193**	**555 917**	**16 965**	**1 087 166**	**621 073**	**1 723 002**	**963 069**	**33 868 005**

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**

Notes to the statement of financial position (cont.)

19. Investments in subsidiaries

	31 December 2016	31 December 2015
Raiffeisen-Leasing Polska S.A.	0	492 687
Leasing Poland Sp. z o.o	14 600	14 600
Raiffeisen Financial Services Polska Sp. z o.o.	12 245	12 245
Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.	4 000	2 000
Raiffeisen Solutions Sp. z o.o.	9 650	6 050
Total	**40 495**	**527 582**

On 31 March 2016 the Parent Entity sold its shares of Raiffeisen-Leasing Polska S.A. („RLPL") to Raiffeisen Bank International AG. The purpose of the transaction was to improve the Group's capital ratios according to the PFSA recommendation. Result on sale of shares of PLN 202 313 thousand (before tax) was presented in line Result on sale of shares in subsidiary.

Book value of sold shares	492 687
Sale price	695 000
Result on sale of RLPL (before tax)	202 313
Income tax on result on sale of RLPL	-38 439
Result on sale of RLPL (after tax)	163 874

As a result the Group lost control of the RLPL and all other companies comprising the RLPL Group, namely Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Services Sp. z o.o., Raiffeisen-Leasing Real Estate Sp. z o.o. and the special purpose entity, ROOF Poland Leasing 2014 DAC.

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 2016						
Raiffeisen-Leasing Polska S.A.	Poland	24 270	3 075	16 170	8 948	99.99%
Raiffeisen Financial Services Polska Sp. z o.o.	Poland	19	2 902	251	-1 505	100%
Raiffeisen Investment Polska Sp. z o.o.	Poland	29 200	27 241	2 775	-3 442	100%
Raiffeisen Solutions Sp. z o.o.	Poland	3 733	32	55	-298	100%
31 December 2015						
Raiffeisen-Leasing Polska S.A.	Poland	7 134 779	6 558 426	355 926	54 235	100%
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%
Raiffeisen Solutions Sp. z o.o.	Poland	5 741	3 939	110	-3 751	100%

Notes to the statement of financial position (cont.)

20. Intangible assets

For the year ended 31 December 2016	Goodwill	"Polbank" brand	Relations with customers	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT							
At the beginning of the year	**32 966**	**200 000**	**70 400**	**669 269**	**34 389**	**8 820**	**1 015 844**
Direct additions during the year	0	0	0	1 438	45 771	0	**47 209**
Internal development or reclassification	0	0	0	27 379	-27 379	0	**0**
Disposals during the year	-32 966	0	0	-29 359	-3 077	-6 836	**-72 238**
At the end of the year	**0**	**200 000**	**70 400**	**668 727**	**49 704**	**1 984**	**990 815**
ACCUMULATED AMORTIZATION							
At the beginning of the year	**0**	**0**	**43 835**	**436 004**	**0**	**0**	**479 839**
Amortization charge for the year	0	0	9 758	51 087	0	0	**60 845**
Disposals during the year	0	0	0	-21 352	0	0	**-21 352**
At the end of the year	**0**	**0**	**53 593**	**465 739**	**0**	**0**	**519 332**
IMPAIRMENT							
At the beginning of the year	**0**	**0**	**0**	**10**	**649**	**0**	**658**
Additions	0	86 000	0	0	811	0	**86 811**
Decreases	0	0	0	-10	0	0	**-10**
At the end of the year	**0**	**86 000**	**0**	**0**	**1 460**	**0**	**87 460**
NET AMOUNT							
At the beginning of the year	**32 966**	**200 000**	**26 565**	**233 255**	**33 740**	**8 820**	**535 347**
At the end of the year	**0**	**114 000**	**16 807**	**202 988**	**48 244**	**1 984**	**384 023**

In 2016 and 2015, 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 2016 equaled to zero (as of 31 December 2015 equaled to PLN 834 thousand).

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. (see note 3.5 to the financial statements).

Goodwill and "Polbank" brand have indefinite useful lives, therefore they are not amortized but are subject to annual impairment tests. As at 31 December 2016, the impairment test of "Polbank" brand resulted in the identification of impairment of PLN 86 000 thousand. As the result of the impairment test of goodwill the Bank recognized impairment of PLN 32 966 thousand and at the same time goodwill was written of, because its carrying value amounted to zero zlotys.

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 above presented intangible assets has been described in note 3.5 to the financial statements.

As of 31 December 2016 the Bank recognized impairment on computer software under development due to decisions not to continue selected projects.

For the year ended 31 December 2015	Goodwill	"Polbank" brand	Relations with customers	Computer software	Computer software under development	Advances for intangible assets	Total
GROSS AMOUNT							
At the beginning of the year	**32 966**	**200 000**	**70 400**	**640 668**	**34 656**	**10 969**	**989 660**
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**
At the end of the year	**32 966**	**200 000**	**70 400**	**669 269**	**34 389**	**8 820**	**1 015 844**
ACCUMULATED AMORTIZATION							
At the beginning of the year	0	**0**	**29 884**	**386 900**	**0**	**0**	**416 784**
Amortization 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**
At the end of the year	**0**	**0**	**43 835**	**436 004**	**0**	**0**	**479 839**
IMPAIRMENT							
At the beginning of the year	**0**	**0**	**0**	**10**	**649**	**0**	**658**
At the end of the year	**0**	**0**	**0**	**10**	**649**	**0**	**658**
NET AMOUNT							
At the beginning of the year	**32 966**	**200 000**	**40 516**	**253 759**	**34 007**	**10 969**	**572 218**
At the end of the year	**32 966**	**200 000**	**26 565**	**233 255**	**33 740**	**8 820**	**535 346**

Notes to the statement of financial position (cont.)

21. Property, plant and equipment

For the year ended 31 December 2016	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							
At the beginning of the year	**212 172**	**324 272**	**30**	**34 010**	**8 820**	**2 884**	**582 188**
Direct additions during the year	168	2 681	0	4 924	33 744	0	**41 517**
Internal development or reclassification	28 534	9 148	14	57	-37 753	0	**0**
Disposals during the year	-62 372	-71 393	0	-7 133	-1 613	-2 884	**-145 395**
At the end of the year	**178 502**	**264 708**	**44**	**31 858**	**3 198**	**0**	**478 310**
ACCUMULATED AMORTIZATION							
At the beginning of the year	**164 809**	**256 499**	**29**	**28 721**	**0**	**0**	**450 057**
Depreciation charge for the year	10 469	25 460	3	1 814	0	0	**37 746**
Disposals during the year	-56 247	-66 813	0	-6 999	0	0	**-130 059**
Reclassification	-52	392	0	78	0	0	**418**
At the end of the year	**118 979**	**215 538**	**32**	**23 614**	**0**	**0**	**358 163**
IMPAIRMENT							
At the beginning of the year	**994**	**4 418**	**0**	**18**	**1 703**	**0**	**7 134**
Additions	5 440	1 356	0	59	0	0	**6 855**
Decreases	-5 741	-4 387	0	-77	-1 703	0	**-11 908**
At the end of the year	**693**	**1 387**	**0**	**0**	**0**	**0**	**2 080**
NET AMOUNT							
At the beginning of the year	**46 369**	**63 355**	**1**	**5 271**	**7 117**	**2 884**	**124 997**
At the end of the year	**58 830**	**47 783**	**12**	**8 244**	**3 198**	**0**	**118 067**

Notes to the statement of financial position (cont.)

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							
At the beginning of the year	**219 662**	**322 775**	**30**	**35 430**	**9 387**	**2 369**	**589 653**
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**
At the end of the year	**212 172**	**324 272**	**30**	**34 010**	**8 820**	**2 884**	**582 188**
ACCUMULATED AMORTIZATION							
At the beginning of the year	**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**
At the end of the year	**164 809**	**256 499**	**29**	**28 721**	**0**	**0**	**450 057**
IMPAIRMENT							
At the beginning of the year	**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**
At the end of the year	**994**	**4 418**	**0**	**18**	**1 703**	**0**	**7 134**
NET AMOUNT							
At the beginning of the year	**64 061**	**76 295**	**2**	**5 862**	**7 684**	**2 369**	**156 274**
At the end of the year	**46 369**	**63 355**	**1**	**5 271**	**7 117**	**2 884**	**124 997**

In 2016 and 2015, there were no restrictions as to the legal title to property, plant and equipment and intangible assets are not pledged as collateral in borrowing transactions.

The amount of contractual commitments for the acquisition of property, plant and equipment as of 31 December 2016 equaled to PLN 2 669 thousand (PLN 3 860 thousand as of 31 December 2015). The agreements will be executed within one year.

As at 31 December 2016 and 31 December 2015, the Bank did not use any other property, plant and equipment in financial leases.

As at 31 December 2016 Bank recognized impairment of property, plant and equipment due to decisions not to further use selected assets.

Notes to the statement of financial position (cont.)

22. Other assets

	31 December 2016	31 December 2015
Financial assets gross		
Collection of bills and cheques	2 451	368
Sundry debtors	81 578	93 469
Settlements with brokerage offices – receivables	4 757	5 225
Settlements of payment cards transactions - receivables	101 513	76 052
Total financial assets, gross	**190 299**	**175 114**
Impairment allowance	-12 703	-3 496
Total financial assets, net	**177 596**	**171 618**
Non-financial assets gross		
Accruals and prepayments	35 911	41 638
Income receivable	1 566	3 574
Assets acquired for debt	2 580	2 794
Social and legal settlements	0	46 059
Total non-financial assets, gross	**40 057**	**94 065**
Total non-financial assets, net	**40 057**	**94 065**
Total	**217 653**	**265 683**

Non-current receivables as at the end of 2016 amounted to PLN 28 275 thousand (PLN 22 634 thousand at the end of 2015) and comprised mainly preliminary settlement deposit made by the Bank which enables Bank's clients to conclude transaction on the Warsaw Stock Exchange and operate as remote stock exchange member and additional payout within "deferred payment" from realization of the takeover of Visa Europe Limited by Visa Inc.

Legal dispute in relation to Raiffeisen Bank Polska S.A. income tax liabilities

On 6 December 2016 the Supreme Administrative Court overruled Bank's appeals against the Voivodeship Administrative Court's decisions dated 28 and 29 April 2016 relating to the tax office decisions on tax settlements for years 2004, 2006 and 2007.

As a result of inspections in years 2009 and 2012 the tax authorities expressed an opinion different to the one 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 interest and recognized receivables from the Tax Authority. The Supreme Administrative Court decision closes legal dispute in the above described cases. The disputed receivables amounted to PLN 75.9 million, including PLN 57.2 million of main receivable and PLN 18.7 million of paid penalty interests. The amount was charged to the Bank's result for the year 2016: main receivable – in line Income tax (see note 10), interests – Other operating expense (see note 9), respectively.

Notes to the statement of financial position (cont.)

Change in impairment allowances on other receivables	For the year ended 31 December 2016	For the year ended 31 December 2015
At the beginning of the period	**3 496**	**2 261**
Impairment allowance recorded	12 597	4 444
Use of impairment allowance	-133	-215
Reversal of impairment allowance	-3 257	-2 994
At the end of the period	**12 703**	**3 496**

23. Amounts due to banks and other monetary institutions

	31 December 2016	31 December 2015
Current accounts	140 168	251 817
Term deposits	194 067	226 973
Loans received	7 099 171	7 457 205
Total	**7 433 406**	**7 935 995**

Non-current amounts due to banks and other monetary financial institutions amounted PLN 4 925 126 thousand at the end of 2016 (PLN 4 077 925 thousand at the end of 2015).

As at 31 December 2016 and 2015 value of repurchase agreements (sell buy back) with banks and other monetary institutions equaled zero.

24. Amounts due to customers

	31 December 2016	31 December 2015
Amounts due to individuals	18 218 007	17 512 927
Amounts due to micro customers	2 565 414	1 957 634
Amounts due to large enterprises	12 358 879	15 629 555
Amounts due to SME	3 219 506	3 654 064
Amounts due to the public sector	1	0
Total	**36 361 807**	**38 754 180**

Non-current amounts due to customers amounted to PLN 62 612 thousand at the end of 2016 (PLN 69 488 thousand at the end of 2015).

The value of repurchase agreements (sell buy back) with clients as at 31 December 2016 and 31 December 2015 amounted to zero.

Notes to the statement of financial position (cont.)

25. Subordinated liabilities

	31 December 2016	31 December 2015
A loan of EUR 25 million due in 2017	110 849	106 812
A loan of EUR 50 million due in 2024	221 247	213 095
A loan of EUR 95 million due in 2022	0	404 882
Total	**332 096**	**724 789**

Subordinated loans will be repaid by the Bank on the date of their maturity. In both 2016 and 2015 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. 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 amount of subordinated debt as at the end of 2016 equaled PLN 221 247 thousand (PLN 724 789 thousand as at 31 December 2015).

26. Liabilities from debt securities issued

For the year ended 31 December 2016	At the beginning of the year	Decreases - payment of interests	Change of accrued interests, discount and valuation	At the end of the year
Liabilities from debt securities issued	501 825	-15 390	15 395	501 830
Total	**501 825**	**-15 390**	**15 395**	**501 830**

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

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." was carried out under Bank's corporate bonds issuance plan in total amount of PLN 2 billion.

Notes to the statement of financial position (cont.)

27. Other liabilities

	31 December 2016	31 December 2015
Financial liabilities		
Interbank settlements	180 577	58 209
Settlements with brokerage offices	40 638	1 475
Sundry creditors and accruals	165 343	190 998
Settlements related to payment cards	30 730	31 025
Total financial liabilities gross	**417 288**	**281 707**
Non-financial liabilities		
Deferred income	62 448	67 181
Social and legal settlements	31 764	26 033
Other	1 231	1 451
Total non-financial liabilities gross	**95 443**	**94 665**
Total	**512 731**	**376 372**

Non-current liabilities as at 31 December 2016 amounted to PLN 53 638 thousand (PLN 36 999 thousand as at 31 December 2015).

28. Provisions

For the year ended 31 December 2016	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	41 228	26 084	-42 406	0	648	25 554
Provisions for off-balance sheet liabilities assessed collectively IBNR	8 556	2 901	-6 085	0	72	5 444
Total provisions for off-balance sheet items	**49 784**	**28 985**	**-48 491**	**0**	**720**	**30 998**
Provisions for disputes and claims	16 047	2 067	-1 023	-2 800	0	14 291
Provision for bonus payments	50 268	81 802	-31 974	-34 463	0	65 633
Provision for overdue vacations	20 002	24 721	-26 888	-1 834	0	16 001
Provision for pension and death benefits	3 359	0	-110	-12	0	3 237
Restructuring provision	9 709	27 519	-909	-20 274	0	16 045
Total provisions	**99 386**	**136 109**	**-60 904**	**-59 383**	**0**	**115 208**
Total	**149 170**	**165 094**	**-109 395**	**-59 383**	**720**	**146 206**

Notes to the statement of financial position (cont.)

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 and death 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**

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.

As at 31 December 2016 provisions for legal disputes comprised, mainly:

- provision resulting from the penalty imposed on the Bank by the Office of Competition and Consumer Protection (OCCP) in October 2014 concerning the practices connected with concluding of agreements with customers relating to membership of the group insurance for life and endowment programm called "Program Pomnażania Oszczędności Kumulatus". The penalty amounted to PLN 21 122 thousand. The decision is not final. The Bank appealed against the decision and raised a provision for this penalty in the amount of PLN 10 561 thousand, because in its opinion the possible outflow will not exceed the amount of the provision,

- provision in the amount of PLN 1 663 (PLN 5 486 thousand as at 31 December 2015) for potential claims resulting from disputes with former Polbank franchisee partners.

- provision in the amount of PLN 1 950 thousand relating to legal disputed from the settlement of the option transactions.

The amount of long term provisions as at 31 December 2016 equaled PLN 21 644 thousand (PLN 29 726 thousand as at 31 December 2015) and referred to retirement, pension and death benefits, provision for overdue vacations as well as Share Incentive Program designed for the Board Members of the Bank.

Notes to the statement of financial position (cont.)

The restructuring provision as at 31 December 2016, in the amount of PLN 16 048 thousand (PLN 9 709 thousand as at 31 December 2015) 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 year 2015 resulted mainly from creating provision for the realization of employment and branches optimization program.

In the IV quarter of 2015 the Management Board of the Bank decided to liquidate "Raiffajne 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 2016**	**For the year ended 31 December 2015**	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
At the beginning of the year	2 256 683	2 256 683	248 260	248 260
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 as at 31 December 2016 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.

Other capital and reserves	31 December 2016	31 December 2015
General banking risk reserve	995 019	970 019
Settlement of the purchase of the organized part of entity	-3 883	-3 883
Valuation of avaliable for sale financial assets	-5 391	43 174
Valuation of derivatives hedging the net cash flow	-30 779	-37 955
Brokerage activities reserve	1 000	1 000
Other reserves	**46 522**	**46 522**
At the end of the year	**1 002 488**	**1 018 877**

Notes to the statement of financial position (cont.)

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

Retained earnings	For the year ended 31 December 2016	For the year ended 31 December 2015
At the beginning of the year	684 411	544 336
Transfer of net result to retained earnings	162 815	160 075
Transfer of net profit to general banking risk reserve	-25 000	-20 000
At the end of the year	**822 227**	**684 411**

Dividends

Based on recommendations of the Management Board and the Supervisory Board the Bank did not pay dividend from 2015 profit. The Management Board of the Bank would not recommend dividend payment from 2016 profit.

Other notes

30. Contingent liabilities

The table below presents contingent liabilities and contingent assets arising from the contracts:

	31 December 2016	31 December 2015
Guarantees issued		
Bank guarantees	1 739 565	1 668 787
Letters of credit and bank acceptances	188 697	215 575
Total guarantees issued	**1 928 262**	**1 884 362**
Financial liabilities granted		
Granted loan commitments:	7 136 072	8 122 312
With initial maturity up to 1 year	3 402 756	3 659 332
With initial maturity above 1 year	3 733 316	4 462 980
Total financial liabilities granted	**7 136 072**	**8 122 312**
Total	**9 064 334**	**10 006 674**

	31 December 2016	31 December 2015
Guarantees received	5 871 309	5 635 557
Total	**5 871 309**	**5 635 557**

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 52 465 thousand as at 31 December 2016 (PLN 71 790 thousand as at 31 December 2015). 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 2016 the total value of provisions for litigations against the Bank amounted to PLN 3 730 thousand (mainly provisions for claims of former franchisee partners of the Bank and claims of the settlement transaction's options; PLN 5 486 thousand as at 31 December 2015), see note 28 of the financial statements.

In December 2016 Office of Competition and Consumer Protection (OCCP) issued a decision, in which it decided that the Bank infringed the collective consumer interests by not taking into account of negative LIBOR and after withdrawing this practice the Bank did not calculate negative interests on loans in the Swiss franc. In its decision OCCP fined Bank with PLN 3.5 million. The decision is not final, the Bank filed an appeal to the Consumer and Competition Protection Court. In the Bank opinion the risk of economic outflow is estimated below 50% and as of 31 December 2016 no provision for this case was created.

Other notes (cont.)

The above information does not concern (similarly to 2015), due to their character, the cases with the Consumer and Competition Protection Court. The value of provisions for these cases equaled PLN 10 561 thousand as at 31 December 2016 (PLN 10 561 thousand as at 31 December 2015).

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 2016	31 December 2015
Up to 1 year	102 714	131 248
1 to 5 years	211 935	280 664
More than 5 years	120 740	148 945
Total	**435 389**	**560 857**

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 operating 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.

	Note	31 December 2016	31 December 2015
Cash and balances with Central Bank			
Mandatory reserves with the Central Bank		1 064 061	1 418 802
Amounts due from banks			
Collateral deposits and other		139 126	1 051 393
Investment securities			
Treasury bonds as collateral for derivatives		1 185 902	0
Treasury bonds as collateral for a loan received		254 865	447 393
Financial instruments blocked for BFG		229 409	228 816
Loans and advances to customers			
Collateral deposits for currencies oparations - receivables		5 343	5 553

33. Sale of receivables

In 2016, the Bank sold impaired loans and advances to customers with total capital value of PLN 122 779 thousand (in 2015 of PLN 257 412 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 12 183 thousand (in 2015 of PLN 24 954 thousand) and was presented in

Other notes (cont.)

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 2016 the Custody Unit maintained 537 securities accounts for customers (537 accounts as at 31 December 2015). The total fair value of financial instruments of Custody Unit's clients amounted to PLN 23 346 396 thousand as at 31 December 2016 (PLN 22 452 798 thousand as at 31 December 2015).

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 and clearing member.

35. Supplementary information to statement of cash flows

Cash and cash equivalents	31 December 2016	31 December 2015
Cash in hand at the Bank	667 808	1 067 024
Cash on the current account with the Central Bank	1 064 061	1 636 486
Cash on Nostro accounts in other banks	133 797	48 076
Deposits in other banks (due within 3 months)	0	38 400
Cash and cash equivalents presented in the cash flow statement	**1 865 666**	**2 789 986**

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:

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)

Other notes (cont.)

4. The following items were excluded from change of "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".

Other notes (cont.)

For the year ended 31 December 2016	changes		difference of which:	1	2	3	4a	4b	4c
	in statement of financial position	in statement of cash flows							
Interbank placements, loans and advances to other banks	888 997	916 695	-27 698	19 623	-47 321	0	0	0	0
Financial assets held for trading	4 523 068	4 388 013	135 055	135 055	0	0	0	0	0
Derivative financial instruments	163 229	-12 603	175 832	184 692	0	-8 860	0	0	0
assets	95 665	-85 374	181 039	189 899	0	-8 860	0	0	0
liabilities	67 564	72 771	-5 207	-5 207	0	0	0	0	0
Loans and advances to customers	-178 859	-1 250 459	1 071 600	1 071 600	0	0	0	0	0
Amounts due to banks and other monetary institutions	-895 282	-280 952	-614 330	-116 351	0	0	97 313	-872 046	276 754
Amounts due to customers	-2 392 373	-1 919 655	-472 718	-472 718	0	0	0	0	0

For the year ended 31 December 2015	changes		difference of which:	1	2	3	4a	4b	4c
	in statement of financial position	in statement of cash flows							
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

Other notes (cont.)

36. Net income from financial instruments

Net income from loans and advances granted to customers and banks

	31 December 2016	31 December 2015
Interest income, including:	1 122 237	1 157 402
from loans and advances granted to banks	19 547	21 019
from loans and advances granted to customers	1 102 690	1 136 383
Commission income – fees and commissions on lending activity	54 093	52 146
Costs related to intermediation in the sale of credit products	-2 271	-3 944
Costs related to securitization of loan receivables	0	-218
Total	**1 174 059**	**1 205 386**

Net income on investment securities

	31 December 2016	31 December 2015
Discount income	-41 029	5 994
Interest income	169 597	64 489
Total	**128 568**	**70 483**

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

Net result from financial liabilities measured at amortized cost

	31 December 2016	31 December 2015
Interest expenses – total cost of interest on financial assets not measured at the fair value through profit or loss	-565 973	-694 572
Commission expenses – fees and commissions on loans received	-165	-298
Total	**-566 138**	**-694 870**

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

Other notes (cont.)

- 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,
- 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 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.

Other notes (cont.)

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 40 and 520 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 0% and 100%, while 100% applied to contracts of two customers with recognized impairment;
- loss given default indicator (LGD) measured between 36.17% and 63.44%.
- parameter of recovery rate (RR) measured between 36.56% and 63.83%.

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 2016, was negligible. For debt securities being exposed to credit spread risk the estimated exposure vulnerability to credit spread fluctuation of +/- 100 bps amounted to + 569/ - 537 PLN thousand impact on financial result from profit and loss account and + 1 219/ -1 242 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 34 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.

Other notes (cont.)

For the year ended 31 December 2016	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	**91 907**	**9 828**	**319 970**	**7**
Increases, including:	275 813	3 645	84 013	359
Purchase	273 166	0	61 379	0
Derivatives opened during year	0	746	0	290
Income from financial instruments, included in:	2 647	0	22 634	0
Net interest income	2	0	47	0
Net income from financial instruments measured at fair value	2 645	0	0	0
Revaluation reserves	0	0	22 587	0
Reclassification	0	2 899	0	69
Decreases, including:	-86 071	-9 807	-110 088	-4
Settlement/redemption	0	-542	0	-7
Sale	-77 076	0	-73 484	0
Loss from financial instruments, included in:	-8 995	-108	-36 604	3
Net interest income	-130	0	-113	0
Net income from financial instruments measured at fair value	-8 865	-108	0	3
Revaluation reserves	0	0	-36 491	0
Reclassification	0	-9 157	0	0
Balance at the end of the year	**281 649**	**3 666**	**293 895**	**362**
Unrealized result on financial instruments held in the portfolio at the end of the year, included in statement of comprehensive income in:	**-5 492**	**-6 162**	**-11 634**	**356**
Net interest income	728	0	2 270	0
Net income from financial instruments measured at fair value	-6 220	-6 162	0	356
Revaluation reserves	0	0	-13 904	0

Other notes (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	7
Purchase	86 869	0	110 117	0
Derivatives opened during the 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	-96
Settlement/redemption	0	-29	0	-96
Sale	-75 994	0	-84 019	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 the end of the year	**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

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.

Other notes (cont.)

Position description	31 December 2016					31 December 2015				
	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	1 731 869	1 731 869	0	0	1 731 869	2 703 510	2 703 510	0	0	2 703 510
Amounts due from banks	315 252	315 175	0	0	315 175	1 204 249	1 204 337	0	0	1 204 337
Financial assets held for trading	8 047 342	8 047 342	371 779	7 393 915	281 649	12 570 410	12 570 410	332 391	12 146 112	91 907
Derivative financial instruments:	466 720	466 720	0	463 054	3 666	562 385	562 385	0	552 557	9 828
Derivative financial instruments held for trading	466 720	466 720	0	463 054	3 666	553 828	553 828	0	544 000	9 828
Derivative financial instruments in cash flow hedges	0	0	0	0	0	8 557	8 557	0	8 557	0
Investment securities:	7 947 954	7 907 898	7 568 463	0	339 435	3 827 055	3 796 154	3 395 290	0	400 864
Investment securities held to maturity	3 475 082	3 435 026	3 435 026	0	0	1 964 957	1 934 056	1 934 056	0	0
Investment securities available for sale, including:	4 472 872	4 472 872	4 133 437	0	339 435	1 862 098	1 862 098	1 461 233	0	400 864
Equity interests	45 540	45 540	0	0	45 540	80 895	80 895	0	0	80 895
Debt securities	4 427 332	4 427 332	4 133 437	0	293 895	1 781 203	1 781 203	1 461 233	0	319 970
Loans and advances to customers, including:	33 868 005	31 444 830	0	0	31 444 830	33 689 146	31 400 096	0	0	31 400 096
Loans and advances granted to individuals	19 631 840	17 322 307	0	0	17 322 307	19 202 502	16 878 760	0	0	16 878 760
Loans and advances granted to micro customers	2 491 608	2 364 899	0	0	2 364 899	2 416 760	2 265 087	0	0	2 265 087
Loans and advances granted to large enterprises	10 345 724	10 358 775	0	0	10 358 775	10 808 023	10 987 794	0	0	10 987 794
Loans and advances granted to small and medium enterprises	1 311 710	1 311 722	0	0	1 311 722	1 240 278	1 246 767	0	0	1 246 767
Loans and advances granted to public sector entities	87 123	87 127	0	0	87 127	21 583	21 689	0	0	21 689
Other financial assets	177 596	177 596	0	0	177 596	171 618	171 618	0	0	171 618
Total financial assets	**52 554 738**	**50 091 430**	**7 940 242**	**7 856 969**	**34 294 220**	**54 728 373**	**52 408 511**	**3 727 681**	**12 698 669**	**35 982 160**

Other notes (cont.)

Position description	31 December 2016					31 December 2015				
	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	7 433 406	7 325 622	0	0	7 325 622	7 935 995	7 880 574	0	0	7 880 574
Derivative financial instruments:	1 546 175	1 546 175	0	1 545 812	362	1 478 611	1 478 611	0	1 478 604	7
Derivative financial instruments held for trading	347 362	347 362	0	346 999	362	503 864	503 864	0	503 857	7
Derivative financial instruments in cash flow hedges	1 180 821	1 180 821	0	1 180 821	0	954 211	954 211	0	954 211	0
Derivative financial instruments in fair value hedges	17 992	17 992	0	17 992	0	20 536	20 536	0	20 536	0
Amounts due to customers, including:	36 361 807	36 401 866	0	0	36 401 866	38 754 180	39 180 293	0	0	39 180 293
Amounts due to individuals	18 218 007	18 239 621	0	0	18 239 621	17 512 927	17 657 546	0	0	17 657 546
Amounts due to micro customers	2 565 414	2 566 605	0	0	2 566 605	1 957 634	1 962 201	0	0	1 962 201
Amounts due to large enterprises	12 358 879	12 373 819	0	0	12 373 819	15 629 555	15 888 034	0	0	15 888 034
Amounts due to small and medium enterprises	3 219 506	3 221 820	0	0	3 221 820	3 654 064	3 672 513	0	0	3 672 513
Amounts due to the public sector	1	1	0	0	1	0	0	0	0	0
Subordinated liabilities	332 096	256 375	0	0	256 375	724 789	519 133	0	0	519 133
Liabilities from debt securities issued	501 830	501 843	0	0	501 843	501 825	501 892	0	0	501 892
Other financial liabilities	417 288	417 288	0	0	417 288	281 707	281 707	0	0	281 707
Total financial liabilities	**46 592 602**	**46 449 168**	**0**	**1 545 812**	**44 903 356**	**49 677 107**	**49 842 210**	**0**	**1 478 604**	**48 363 606**

Other notes (cont.)

38. Offsetting of financial assets and liabilities

As at 31 December 2016 and 31 December 2015 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 2016	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	466 720	466 720	281 151	32 251	175 177
Total	**466 720**	**466 720**	**281 151**	**32 251**	**175 177**

31 December 2016	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	1 546 175	1 546 175	1 467 053	144 469	42 587
Total	**1 546 175**	**1 546 175**	**1 467 053**	**144 469**	**42 587**

Other notes (cont.)

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**

**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 2016	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	466 720	Derivative financial instruments assets	466 720	0
FINANCIAL LIABILITIES				
Derivative financial instruments	1 546 175	Derivative financial instruments liabilities	1 546 175	0

31 December 2015	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	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 notes (cont.)

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-Leasing Real Estate Sp z o.o., - (subsidiaries until 31 March 2016)

  - Raiffeisen Financial Services Polska Sp. z o.o., Raiffeisen Solutions 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 entity,
- Other entities - other related entities – entities controlled by the parent entities and subsidiaries, as well as entities having significant influence on Raiffeisen Zentralbank Österreich AG.
- A special purpose entities Compass Variety Funding Ltd (until 2 April 2015) and ROOF Poland Leasing 2014 DAC (subsidiary until 31 March 2016 roku).

As a part of ordinary operations, a number of transactions were concluded with members of the Bank's key personnel. The Bank's key personnel include members of the 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 2016 and 2015 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 notes (cont.)

Statement of financial position items	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entity key personnel		Other related entities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Amounts due from banks	146 551	1 030 443	0	0	0	0	13 343	9 398
Derivative financial instruments (assets)	277 752	370 810	11	370	0	0	506	401
Loans and advances to customers	0	0	2 888	18 493	1 749	2 300	0	0
Other assets	95	97	0	137	0	0	1 325	522
Amounts due to banks and other monetary institutions	5 368 872	5 744 774	0	0	0	0	1 764 593	1 512 387
Derivative financial instruments (liabilities)	1 477 686	1 400 241	9	0	0	0	2 009	99
Amounts due to clients	0	0	32 471	1 026 487	5 430	4 574	15 848	15 482
Subordinated liabilities	332 096	724 789	0	0	0	0	0	0
Other liabilities	26 383	19 791	193	361	0	0	581	217
Provisions for liabilities	2 407	2 433	0	0	8 400	4 000	1	0

Other notes (cont.)

Statement of profit and loss items	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entity key personnel		Other related entities	
	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest income	188 466	183 583	2 469	5 528	50	49	10 367	803
Interest expenses	-79 627	-79 395	-3 555	-4 947	-52	-103	-23 495	-18 966
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	0	0	0	-1 126	0	0	0	0
Commission income	1 490	1 658	97	269	8	2	5 569	4 199
Commission expenses	-1 181	-1 449	-12	-257	2	0	-2 673	-2 121
Net income from financial instruments measured at fair value and net foreign exchange result	-20 722	-11 237	25	360	3	6	-1 599	-606
Result on sale of shares in subsidiary	202 313	0	0	0	0	0	0	0
Income from dividend	0	0	0	40 900	0	0	0	0
General administrative expenses	-23 450	-19 017	-6 180	-15 053	-12 489	-11 835	-6 354	-6 465
Other operating income	467	445	801	2 058	0	0	13 006	0
Other operating expenses	0	0	0	0	0	0	-4	0

Off-balance sheet commitments	Parent Company		Consolidated Subsidiaries		Members of the Bank's and the Parent Entity key personnel		Other related entities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Guarantees and letters of credit	109 315	154 779	0	1 435	0	0	38 293	22 172
Financial liabilities granted	0	0	6 112	81 822	0	0	0	0
Guarantees received	77 483	165 192	0	33 000	0	0	13 422	73 086

Other notes (cont.)

Transactions with the Bank's Parent Entity comprised transactions 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.

As guarantees and letters of credits are presented Bank's guarantee liabilities issued on other Group banks request, as guarantees received are presented repayment guarantees in relation to loans taken from the Bank or re-guarantees received from other banks and relating to guarantees issued by the Bank.

As at the date of financial statements preparation, variable remuneration for the Management Board of the Bank was not paid or awarded. Provision expenses for this purpose are presented in line provisions for employee bonuses. Before the Supervisory Board's decision it is not possible to accurately present variable remuneration for the Bank Management Board, that is why the amount presented in the above table in line Provisions for liabilities and charges to Members of the key personnel is only an estimation of the provision expense for the Management Board, according to terms defined in managerial contracts between Bank and its Management Board in force for the year 2016.

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 2016**	**For the year ended 31 December 2015**
Short-term remuneration of the Management Board (salary)	9 893	9 567
Short-term remuneration of the Supervisory Board	2 596	2 269
Variable remuneration of the Management Board paid in the current reporting period *	2 643	4 652
Total	**15 132**	**16 488**

* 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.

Other notes (cont.)

40. Events after the reporting date

Financial Stability Committee recommendations

In January 2017 the Financial Stability Committee presented a resolution on recommendations relating to restructuring of housing loans in foreign currencies. The Committee recommended to introduce various solutions encouraging banks and clients to voluntary decisions to restructure housing loans in foreign currencies.

These recommendations were:

- raised risk requirement for foreign currency exposures secured with mortgage on real estate up to 150%,
- raised minimum value of LGD parameter for exposures secured with mortgage on real estate, which purchase was financed by the loan in foreign currency,
- introduction of changes in the operations of the Borrowers' Support Fund,
- additional systemic risk buffer of 3% relating to all exposures on the territory of the Republic of Poland,
- updating and widening of the regulations relating to the calculation of the capital requirements connected with foreign currency portfolios,
- issuing by the PFSA of the supervisory recommendation relating to best practices connected with restructuring of the housing loans in foreign currencies,
- including of risks connected with housing loans in foreign currencies in calculation of payments for the bank guarantee fund.

The analysis of the Committee's resolution impact on the Bank's financial statements in following periods, require among others gathering of the information on final solutions implementing these recommendations, which is not feasible before the consultation process is finalized. Due to the above finalization of the analysis of the Committee's resolution impact on the Bank's financial statements is not possible on the date of publication of these financial statements.

Higher risk requirements for exposures secured with mortgage on real estate

On 25 January 2017 draft of Minister of Economic Development and Finance resolution relating to higher risk requirements for exposures secured with mortgage on real estate was presented. According to this draft, exposures in full and completely secured with mortgage on housing real estate, for which level of capital and interest installment depends on changes in the foreign currency rate or rates other than currency in which debtor receives income, are charged with the risk requirement of 150%. The draft resolution will come into force within 6 months from its publication. The resolution will have negative impact on Bank's total capital ratio.

Other notes (cont.)

Merger of RBI and RZB

The Extraordinary General Shareholders' Meeting of Raiffeisen Bank International AG (RBI), which took place on 24 January 2017 accepted the merger of RBI and Raiffeisen Zentralbank Osterrich AG (RZB) and increase of RBI equity due to this merger. The merged entity would operate under the name Raiffeisen Bank International AG, and RBI shares would still be traded on the Stock Exchange in Vienna. One the merger is finalized, the ultimate parent entity of the Bank would be RBI.

Change in Bank's Management Board

On 14 February 2017 Polish Financial Supervision Authority took a decision about the appointment of Witold Broniszewski as a Member of the Management Board supervising the management of the significant risk relating to the Bank's activities.

Changes in the Bank's Articles of Association

The Extraordinary General Meeting convened for 29 September 2016 passed resolutions to amend the Bank's Articles of Association. The amendments to the Articles of Association related among others to changing the number and par value of the Bank shares by split of the existing shares without changing the share capital amount so that the share capital shall be divided into 225 668 340 shares with a par value of PLN 10 and all existing shares shall become new Series AA shares.

An application for registration of the amendments was filed with the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, on 7 November 2016.

On 14 February 2017, the Bank was notified of the registration of the amendments to the Articles of Association by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register.

Conversion factor (CCF) for off-balance commitments

In the protocol issued after the inspection by Polish Financial Supervision Authority (PFSA) in December 2016, PFSA raised objections in relation to conversion factor (CCF) of 0% used by the Bank to off-balance commitments. In the PFSA Inspection Group's opinion, provisions of "Rules of the loans services delivery by Raiffeisen Bank Polska S.A." (Rules) and provisions of loans agreements did not clearly indicated that conditions from Appendix I point 4 of the Regulation No 575/2013 of the European Parliament and of the Council (CRR) are met, i.e.:

- ability to unconditionally cancel limit at any time without notice of termination or

- ability in the factual way to automatically cancel unused liabilities due to worsening credibility.

In the PFSA Inspection's opinion in the Bank there is no automatic cancellation of unused off balance commitments due to worsening credibility.

Other notes (cont.)

The Bank does not agree with this opinion and presented to the PFSA its reasoning pointing out the provisions of Appendix I to the CRR, which indicate the ability to automatic cancellation and do not require to assure in each case that the worsening credibility should result in automatic cancellation of the unused liability. Based on the process used in such situations, the liabilities in the Bank are possible to be factually automatically cancelled, which is proved by the character of this process, i.e. the customer cannot draw money without Bank's consent. In the Bank there is early warning system (EWS) relating to customers financial situation, which meets conditions outlined in the CRR. The monitoring process of customers' financial situation as part of EWS system allows to immediate freeze money granted within the limits, when worsening of customers credibility is identifies.

The 0% CCF is used for the off-balance commitments, which assuming usage of higher conversion factors, defined in the CRR, would generate risk exposure of PLN 2.6 billion, lowering total capital ratio by 1.1 b.p.

No other events having significant influence on the Raiffeisen Bank Polska S.A. consolidated financial statements have occurred after the reporting date.

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 mitigating. The Bank follows the principle that an effective risk management and control system is based on three well-adjusted elements:

- the organizational structure, comprising a segregation of duties and competencies, 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 loans 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, Corporate Credit Risk Management Department and Retail 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 the Bank is obliged to maintain an additional requirements in respect of own funds:

- based on article 138 par. 1 point 2a The Banking Law Act:

1) since October 2015 the Bank is obliged by Financial Supervision Authority to maintain an additional capital adequacy equal to 2.08 p.p to cover risk resulting from portfolio of currency mortgage loans; in October 2016 as a result of review of the process the bank received a decision updating the amount of requirement - currently capital requirement amounts to 2.56 p.p;

- based on article 19 in relation to article 84 the act on macro-prudential supervision over the financial system and crisis management in financial system:

2) since January 2016 the Bank is obliged to maintain additional equity amount of safety buffer amounted to 1.25 p.p:

- based on article 39 par.1 in relation to article 38 par.1 and 2 the act on macro-prudential supervision over the financial system and crisis management in financial system:

3) The Bank was identified by Financial Supervision Authority as other institution of system relevance and as a result since August 2016 the Bank was imposed with a buffer amounted to 0.25 p.p.

Risk management (cont.)

Therefore the minimal level of total capital ratio should not be lower than:

	Requirements regulation	Supervision recommendation
The minimum for the tolal capital adequancy	8,00%	12,00%
Cover risk resulting from portfolio of currency mortgage loans	2,56%	2,56%
The sufety buffer	1,25%	1,25%
The buffer other institution of system relevance	0,25%	0,25%
The total capital adequency (%)	**12,06%**	**16,06%**

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	31 December 2016	31 December 2015
Credit and counterparty risk	Standard	2 613 173	2 733 462
Market risk	Standard	44 066	40 291
Operational risk	Standard	271 001	289 818
Regulatory capital		**2 928 240**	**3 063 571**
Own funds		**6 111 419**	**5 724 042**
Total capital ratio (%)		**16,70**	**14,95**

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 5 875 197 thousand at the end of 2016 (PLN 5 475 202 thousand at the end of 2015) and Tier II capital amounted to PLN 236 221 (PLN 248 840 thousand at the end of 2015).

From 1 January 2016 to 30 March 2016 the Bank did not comply with the requirement of the minimal total capital ratio resulting from supervisory recommendation (taking into account additional capital requirement to cover risk resulting from currency mortgage loans). The Bank has undertaken actions to keep capital ratio at the required level. Starting from 31 March 2016 the Bank complies with the regulatory requirements, and supervision requirements.

Internal capital calculation

Internal 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.

Risk management (cont.)

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.

Internal 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 (risk measured quantitatively). 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.

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 internal capital.

42. Credit risk

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

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 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.

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).

Risk management (cont.)

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 behalf.

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.

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.

Risk management (cont.)

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 835 941 thousand (2015: PLN 661 927 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 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.

Risk management (cont.)

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 2016	Financial assets presented in the statement of financial position							
Classes of maximum exposure with instrument types assigned to them	Amounts due form banks	Cash and balances with the Central Bank	Trading assets	Derivatives	Investment securities	Loans and advances	Other	**Total**
Cash and cash equivalents	0	**667 808**	,	0	0	0	0	**667 808**
Exposures to governments and central banks	**0**	**1 064 061**	**7 765 694**	**317**	**7 608 519**	**0**	**0**	**16 438 591**
Balances with the Central Bank	0	1 064 061	0	0	0	0	0	1 064 061
Treasury bonds and bills	0	0	371 779	0	7 608 519	0	0	7 980 298
NBP bills	0	0	7 393 915	0	0	0	0	7 393 915
Derivative financial instruments	0	0	0	317	0	0	0	317
Exposures to banks	**315 252**	**0**	**8 831**	**283 197**	**0**	**0**	**0**	**607 280**
Cash on current and term accounts with other banks	272 923	0	0	0	0	0	0	272 923
Loans and advances granted to other banks	42 329	0	0	0	0	0	0	42 329
Derivative financial instruments	0	0	0	283 197	0	0	0	283 197
Corporate bonds	0	0	5 408	0	0	0	0	5 408
Mortgage backed securities	0	0	3 423	0	0	0	0	3 423
Exposures to customers	**0**	**0**	**272 817**	**183 206**	**339 435**	**33 868 005**	**0**	**34 663 463**
Loans and advances granted to individuals	0	0	0	0	0	19 631 840	0	19 631 840
Loans and advances granted to micro customers	0	0	0	0	0	2 491 608	0	2 491 608
Loans and advances granted to large enterprises	0	0	0	0	0	10 345 724	0	10 345 724
Loans and advances granted to small and medium enterprises	0	0	0	0	0	1 311 710	0	1 311 710
Loans and advances granted to public sector entities	0	0	0	0	0	87 123	0	87 123
Equity investments	0	0	0	0	45 540	0	0	45 540
Derivative financial instruments	0	0	0	183 206	0	0	0	183 206
Corporate bonds	0	0	272 817	0	293 895	0	0	566 712
Other financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**177 596**	**177 596**
Total	**315 252**	**1 731 869**	**8 047 342**	**466 720**	**7 947 954**	**33 868 005**	**177 596**	**52 554 738**

Risk management (cont.)

As at 31 December 2015	Financial assets presented in the statement of financial position							
Classes of maximum exposure with instrument types assigned to them	Amounts due form 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**
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	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**

Maximum exposure to credit risk for off-balance sheet amounted to:	31 December 2016	31 December 2015
Guarantees	1 928 262	1 884 362
Off balance liabilities of a financial nature	7 136 072	8 122 311
Total	**9 064 334**	**10 006 673**

Risk management (cont.)

Loan exposures to banks and customers as well as other financial assets presented in the statement of financial position are regularly tested for impairment (on an individual or collective basis). For the purpose of disclosure they are classified into 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 segments:

	Exposure amount			
31 December 2016	**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	**186 854**	**32 258 097**	**32 444 951**	**15 489 393**
Amounts due from Central Bank and other banks	0	1 375 894	1 375 894	31 041
Individual customers	9 258	17 655 503	17 664 761	9 305 900
Micro customers	0	1 961 456	1 961 456	1 151 691
Large enterprises	0	9 887 206	9 887 206	4 404 196
Small and medium enterprises	0	1 290 466	1 290 466	596 565
Public sector	0	87 572	87 572	0
Other financial assets	177 596	0	177 596	0
Overdue receivables without identified impairment	**8 991**	**1 874 702**	**1 883 693**	**917 341**
Amounts due from Central Bank and other banks	0	17	17	0
Individual customers	1 259	1 621 170	1 622 429	732 899
Micro customers	0	151 865	151 865	102 397
Large enterprises	7 732	88 995	96 727	71 180
Small and medium enterprises	0	12 655	12 655	10 865
Receivables with identified impairment	**1 103 371**	**1 723 002**	**2 826 373**	**1 144 455**
Amounts due from Central Bank and other banks	3 502	0	3 502	0
Individual customers	28 940	1 006 850	1 035 790	355 566
Micro customers	31 030	716 152	747 182	363 311
Large enterprises	971 942	0	971 942	412 993
Small and medium enterprises	55 254	0	55 254	12 585
Other financial assets	12 703	0	12 703	0
Total other financial assets, gross	**1 299 216**	**35 855 801**	**37 155 017**	**17 551 189**
Impairment allowances on amounts due from Central Bank and other banks	**60**	**40**	**100**	**0**
Impairment allowances on loans and advances	**621 072**	**1 096 228**	**1 717 300**	**0**
Impairment allowances on other financial assets	**12 703**	**0**	**12 703**	**0**
Total other financial assets, net	**665 381**	**34 759 533**	**35 424 914**	**17 551 189**

Risk management (cont.)

31 December 2015	Exposure amount 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**

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

As at 31 December 2016	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 - overdue but not impaired	**1 383 144**	**427 037**	**3 501**	**3 223**	**66 788**	**1 883 693**
Central Bank and other banks	0	0	0	0	17	17
Individual customers	1 268 951	346 757	235	1 270	5 216	1 622 429
Micro customers	93 753	57 851	23	54	184	151 865
Large enterprises	15 638	21 564	139	1 850	57 536	96 727
Small and medium enterprises	4 802	865	3 104	49	3 835	12 655
Total	**1 383 144**	**427 037**	**3 501**	**3 223**	**66 788**	**1 883 693**

Risk management (cont.)

As at 31 December 2015	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 - overdue but not impaired	**1 334 660**	**454 069**	**2 211**	**3 139**	**48 696**	**1 842 775**
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**

Overdue but not impaired exposures relate to clients for which the Bank did not identify impairment in individual analysis and exposures with overdue amount below limit set by the Bank.

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:

- exposures 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, until October 2016 the Bank used ten grade scale ranging from A1 to D (where an A rating means minimal credit risk, and a D rating means impairment). Since November 2016 the Bank started using the new model rating to better diversify the risk. As a result the new 28-degrees scale of ratings was implemented. According the new scale the grades from 1A to 9C and 10 are assigned, where 1A is assigned to customers with the lowest level of credit risk and rating 10 to customer consider as insolvent.

Risk management (cont.)

Credit quality of financial assets neither past due nor impaired	31 December 2016				31 December 2015			
	Exposures				Exposures			
	to governments and central banks	to banks	to the public sector	Total	to governments and central banks	to banks	to the public sector	Total
1C	0	2 163	0	2 163	0	0	0	0
2A	0	7 803	0	7 803	0	0	0	0
2B	0	35 097	0	35 097	0	0	0	0
2C	0	13 449	0	13 449	0	0	0	0
3A	0	1 080	0	1 080	0	0	0	0
3B	0	205 714	0	205 714	0	0	0	0
3C	0	1 502	0	1 502	0	0	0	0
4A	0	1 096	0	1 096	0	0	0	0
4B	0	297	0	297	0	0	0	0
5B	0	54	0	54	0	0	0	0
8C	0	37 571	0	37 571	0	0	0	0
A	1 064 061	0	0	1 064 061	1 636 486	0	0	1 636 486
A3	0	0	0	0	0	25 590	0	25 590
B1	0	0	0	0	0	1 117 158	0	1 117 158
B2	0	0	2 177	2 177	0	15 351	10 953	26 304
B3	0	0	79 729	79 729	0	7 369	3 976	11 345
B4	0	0	871	871	0	397	6 750	7 147
B5	0	0	4 795	4 795	0	0	0	0
C	0	0	0	0	0	36 857	0	36 857
Non-rated exposures	0	6 007	0	6 007	0	1 678	0	1 678
Total	**1 064 061**	**311 833**	**87 572**	**1 463 466**	**1 636 486**	**1 204 400**	**21 679**	**2 862 565**

- 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	31 December 2016			31 December 2015		
	Exposures			Exposures		
	to individuals	to micro customers	Total	to individuals	to micro customers	Total
0.5	8 864 916	71 581	8 936 497	8 425 479	14 863	8 440 342
1.0	1 065 186	144 171	1 209 357	1 376 000	92 012	1 468 012
1.5	1 352 441	562 252	1 914 693	1 251 663	354 164	1 605 827
2.0	3 432 244	445 746	3 877 990	3 431 375	476 306	3 907 681
2.5	1 189 722	179 531	1 369 253	1 120 506	270 402	1 390 908
2.5.1	174	121 904	122 078	302	149 563	149 865
3.0	637 060	87 923	724 983	611 640	113 359	724 999
3.0.1	0	86 393	86 393	0	107 473	107 473
3.5	604 392	114 550	718 942	573 546	126 574	700 120
4.0	140 119	51 536	191 655	166 875	73 439	240 314
4.5	118 815	25 520	144 335	70 347	26 801	97 148
4.5.1	67	0	67	19	0	19
Non-rated exposures	259 625	70 349	329 974	322 491	51 574	374 065
Total	**17 664 761**	**1 961 456**	**19 626 217**	**17 350 243**	**1 856 530**	**19 206 773**

- for corporate clients (including small and medium size enterprises) the Bank uses 28-degrees scale with ratings ranging from 1A to 9C and 10, where 1A rating is assigned to customers with the lowest level of credit risk, 10 ratings are assigned to customers who consider 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	31 December 2016			31 December 2015		
	Exposures			Exposures		
	to large enterprises	to small and medium enterprises	Total	to large enterprises	to small and medium enterprises	Total
6.1	428 241	0	428 241	425 698	0	425 698
6.2	1 356 385	0	1 356 385	1 432 285	0	1 432 285
6.3	745 760	0	745 760	817 512	0	817 512
6.4	410 038	0	410 038	357 450	0	357 450
6.5	373	0	373	34 036	0	34 036
1C	164	0	164	3	0	3
2A	0	0	0	68	0	68
2B	14	0	14	0	0	0
2C	3 234	0	3 234	3 978	0	3 978
3A	0	0	0	2 142	0	2 142
3B	1 737	0	1 737	90 718	0	90 718
3C	135 786	0	135 786	62 751	0	62 751
4A	69 201	0	69 201	23 952	0	23 952
4B	62 812	308 210	371 022	115 923	314 260	430 183
4C	207 192	0	207 192	464 593	0	464 593
5A	493 193	0	493 193	318 125	3	318 128
5B	302 897	352 528	655 425	586 783	313 743	900 526
5C	909 326	0	909 326	847 378	0	847 378
6A	962 122	98 706	1 060 828	1 287 700	104 062	1 391 762
6B	1 247 065	108 393	1 355 458	1 086 117	101 615	1 187 732
6C	1 025 005	101 138	1 126 143	1 006 402	115 581	1 121 983
7A	551 391	98 814	650 205	605 541	85 994	691 535
7B	364 987	77 804	442 791	190 556	57 143	247 699
7C	222 770	61 554	284 324	173 051	38 869	211 920
8A	74 299	33 005	107 304	126 252	37 020	163 272
8B	37 830	13 120	50 950	47 897	14 087	61 984
8C	133 112	14 515	147 627	7 124	20 431	27 555
9A	13 802	0	13 802	17 818	0	17 818
9B	3 913	10 719	14 632	19 584	13 537	33 121
9C	3 691	0	3 691	40 224	0	40 224
1.0	2 399	1 745	4 144	0	3 016	3 016
1.5	0	0	0	3 372	0	3 372
2.0	0	0	0	13 968	0	13 968
2.5	71	0	71	124	0	124
3.5	0	0	0	2	0	2
4.5	0	0	0	46 513	0	46 513
C3	0	0	0	40 429	0	40 429
Non-rated exposures	118 396	10 215	128 611	114 679	7 866	122 545
Total	**9 887 206**	**1 290 466**	**11 177 672**	**10 410 748**	**1 227 227**	**11 637 975**

Risk management (cont.)

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.

	31 December 2016			31 December 2015		
	Exposures			Exposures		
	to governments and central banks	to banks	Total	to governments and central banks	to banks	Total
1C	0	865	865	0	0	0
2A	0	3 062	3 062	0	0	0
2B	0	25	25	0	0	0
2C	0	3 438	3 438	0	0	0
3A	0	5 557	5 557	0	0	0
3B	0	278 772	278 772	0	0	0
3C	0	173	173	0	0	0
5A	0	136	136	0	0	0
A1	15 374 530	0	15 374 530	15 908 337	0	15 908 337
A3	0	0	0	0	775	775
B1	0	0	0	0	387 757	387 757
B2	0	0	0	0	51 606	51 606
B4	0	0	0	0	3 944	3 944
B5	0	0	0	0	16 265	16 265
C	0	0	0	0	288	288
Non-rated exposures	0	0	0	0	18 785	18 785
Total	**15 374 530**	**292 028**	**15 666 558**	**15 908 337**	**479 420**	**16 387 757**

Risk management (cont.)

	31 December 2016			31 December 2015		
	to individuals	to micro customers	**Total**	to individuals	to micro customers	**Total**
5B	0	3	3	0	0	0
5C	0	13	13	0	0	0
6B	0	123	123	0	0	0
Non-rated exposures	1 135	2 566	3 701	615	847	1 462
Total	**1 135**	**2 705**	**3 840**	**615**	**847**	**1 462**

Raiffeisen POLBANK

Risk management (cont.)

	31 December 2016				31 December 2015			
	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	40	0	0	40	0	0	0	0
2.0	0	0	0	0	520 745	0	0	520 745
4.5	0	0	0	0	3	0	0	3
6.1	6 255	0	0	6 255	4 372	0	0	4 372
6.2	30 808	0	0	30 808	35 091	0	0	35 091
6.3	24 804	0	0	24 804	20 925	0	0	20 925
6.4	5 776	0	0	5 776	9 699	0	0	9 699
6.5	477	0	0	477	246	0	0	246
2A	326	0	0	326	314	0	0	314
2B	18 671	0	0	18 671	0	0	0	0
2C	0	0	0	0	0	0	0	0
2C	28	0	0	28	0	0	0	0
3A	0	0	0	0	6 050	0	0	6 050
3B	292 680	0	0	292 680	11	0	0	11
4A	698	0	0	698	3 817	0	0	3 817
4B	1 948	3 349	0	5 297	385	2 720	0	3 105
4C	9 187	0	0	9 187	5 494	0	0	5 494
5A	3 456	0	0	3 456	4 714	0	0	4 714
5B	27 368	2 219	0	29 587	6 184	1 264	0	7 448
5C	32 726	0	0	32 726	16 093	0	0	16 093
6A	34 163	739	0	34 902	24 204	517	0	24 722
6B	151 308	475	0	151 783	243 008	409	0	243 417
6C	16 985	188	0	17 173	40 805	453	0	41 258
7A	2 022	428	0	2 450	8 467	57	0	8 524
7B	19 942	237	0	20 179	23 590	485	0	24 075
7C	55 540	387	0	55 927	427	112	0	539
8A	27	176	0	203	0	63	0	63
8B	51	72	0	123	59	59	0	118
8C	0	39	0	39	3	7	0	10
9B	0	19	0	19	0	6	0	6
10	16 986	0	0	16 986	0	0	0	0
B3	15 005	0	0	15 005	0	0	0	0
C2	0	0	0	0	25	0	0	25
C3	0	0	0	0	559	0	0	559
C4	0	0	0	0	804	0	0	804
C5	12	0	0	12	1 004	0	0	1 004
C6	7	0	0	7	320	0	0	320
C7	0	0	0	0	10	0	0	10
C8	179	0	0	179	178	0	0	178
C9	0	0	0	0	28	0	0	28
Non-rated exposures	56 198	111	0	56 309	113 098	1 326	0	114 424
Total	**823 673**	**8 439**	**0**	**832 112**	**1 090 734**	**7 479**	**0**	**1 098 213**

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 2016		As at 31 December 2015	
Name of the industry	Gross amount of exposures	Share in total exposure (%)	Gross amount of exposures	Share in total exposure (%)
Households	20 410 226	55,2%	19 909 762	52,0%
Wholesale and retail trade; repair of motor vehicles, motorcycles,	3 971 528	10,7%	4 045 939	10,9%
Manufacturing	3 072 416	8,3%	3 677 824	9,9%
Financial and insurance activities	1 984 758	5,4%	3 253 404	8,0%
Activities related to real estate	2 732 544	7,4%	2 966 471	8,0%
Production and supply of electricity, gas, steam and air conditioning supply	956 644	2,6%	1 021 913	2,8%
Construction	1 020 482	2,8%	893 793	2,4%
Transport and w arehouse	567 729	1,5%	510 125	1,4%
Information and communication	717 736	1,9%	453 935	1,2%
Professional, scientific and technical activities	217 351	0,6%	429 889	1,2%
Hotels and restaurants	497 577	1,3%	407 442	1,1%
Administration activities and supporting activities	358 180	1,0%	347 322	0,9%
Other	457 547	1,3%	376 808	0,2%
Total	**36 964 718**	**100,0%**	**38 294 628**	**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 concerning 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, 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 significant 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				
31 December 2016	**Gross value**	**Impairment allowance**	**Net value**	**Value of received collateral**
Not impaired exposures	**809 570**	**18 596**	**790 974**	**587 725**
Non past due	**513 232**	**6 499**	**506 733**	**386 679**
Individual customers	265 713	1 317	264 396	145 678
Micro customers	112 146	633	111 513	106 080
Large enterprises	132 398	4 370	128 028	132 342
Small and medium enterprises	2 975	179	2 796	2 579
Past due	**296 338**	**12 097**	**284 241**	**201 046**
Individual customers	182 560	5 683	176 877	94 202
Micro customers	55 802	2 408	53 394	49 023
Large enterprises	53 708	3 711	49 997	53 708
Small and medium enterprises	4 268	295	3 973	4 113
Impaired exposuers	**932 106**	**512 060**	**420 046**	**422 208**
Group method	**341 804**	**166 114**	**175 690**	**180 500**
Individual customers	172 711	96 030	76 681	74 374
Micro customers	169 093	70 084	99 009	106 126
Individual method	**590 302**	**345 946**	**244 356**	**241 708**
Individual customers	21 764	9 763	12 001	10 055
Micro customers	15 336	10 011	5 325	4 701
Large enterprises	543 763	319 577	224 186	224 108
Small and medium enterprises	9 439	6 595	2 844	2 844
Total	**1 741 676**	**530 656**	**1 211 020**	**1 009 933**

Risk management (cont.)

Forborne exposures				
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**

In "Not impaired exposures" category are presented loans exposures with impairment trigger identified, but no impairment loss recognized, are presented of gross value PLN 202 672 thousand (in 2015 PLN 330 996 thousand), and impairment loss (IBNR) of PLN 8 555 thousand (in 2015 PLN 15 657 thousand).

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

Net amount exposures				
30 December 2016	**Forborne**	**Total Loans and advances to customers by borrower segment**	**% share**	**Under probation***
Individual customers	529 955	19 631 840	3%	309 330
Micro customers	269 241	2 491 608	11%	93 669
Large enterprises	402 211	10 345 724	4%	306 872
Small and medium enterprises	9 613	1 311 710	1%	6 329
Public sector	0	87 123	0%	0
Total	**1 211 020**	**33 868 005**	**4%**	**716 200**

Risk management (cont.)

Net amount exposures				
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**

** - the Bank classifies to the category "Under probation", which is defined for 2 years, 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**					
31 December 2016	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	**513 233**	**150 682**	**100 036**	**1 989**	**0**	**43 630**	**809 570**
Individual customers	265 713	120 312	62 221	0	0	27	**448 273**
Micro customers	112 146	30 105	25 697	0	0	0	**167 948**
Large enterprises	132 399	265	12 118	0	0	41 325	**186 107**
Small and medium enterprises	2 975	0	0	1 989	0	2 278	**7 242**
Impaired exposuers	**315 321**	**10 899**	**35 643**	**37 347**	**29 368**	**503 528**	**932 106**
Individual customers	8 290	8 481	24 157	27 717	11 753	114 076	**194 474**
Micro customers	6 084	2 418	11 486	9 630	17 335	137 476	**184 429**
Large enterprises	300 335	0	0	0	0	243 429	**543 764**
Small and medium enterprises	612	0	0	0	280	8 547	**9 439**
Total	**828 554**	**161 581**	**135 679**	**39 336**	**29 368**	**547 158**	**1 741 676**

Forborne exposures - gross		**Past due**					
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**
	947 629	**177 513**	**169 420**	**55 027**	**16 102**	**472 893**	**1 838 583**

Risk management (cont.)

Changes in carrying amount of "forborne" loans and advances to customers during the year ended 31 December 2016 are presented below:

	For the year ended 31 Decemeber 2016	For the year ended 31 Decemeber 2015
Net carrying amount at the beginning of year	**1 366 710**	**1 848 130**
Changes in impairment allowances in the year	-58 782	35 270
Amount of exposures with the flag removed in the year	-625 778	-1 083 140
Amount of exposures flagged in the year	559 441	670 823
Other changes/repayments	-30 571	-104 373
Net carrying amount at the end of year	**1 211 020**	**1 366 710**

Concentration limits

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:

Acceptable concentraton limit	As of 31 December 2016	As of 31 December 2015
Bank exposure concentration limit (25%)	1 527 855	1 431 011

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 balance and off-balance's exposures exceeding 10% of Bank's equity are presented below – as at 31 December 2016 PLN 611 142 thousand (PLN 572 404 thousand as at 31 December 2015). 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.

Risk management (cont.)

31 December 2016				
Customer No.	**Borrower name**	**Exposure limit**	**Entity / Group**	**% share**
1	Borrower 1	8 583 718	Group	140%
2	Borrower 2	8 329 279	Entity	136%
3	Borrower 3	7 393 915	Entity	121%
4	Borrower 4	657 590	Group	11%

31 December 2015				
Customer No.	**Borrower name**	**Exposure limit**	**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 2016 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%.

Retail mortgage loans denominated in foreign currencies

The 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. The share of the loans denominated in CHF was equal to 35.23% of all loans of the Bank as at the end of 2016, out of which 33.19% concerned individual clients and 1.44% 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 2016 and 31 December 2015.

Risk management (cont.)

Loans for individuals and micro customers mortgage loans porfolio by denomination currencies	31 December 2016 (f/x rate PLN/CHF 4,1)		31 December 2015 (f/x rate PLN/CHF 3,9)	
	Gross amount	Share in portfolio	Gross amount	Share in portfolio
Individual customers				
PLN	1 954 915	10,6%	1 708 456	9,3%
EUR	3 657 369	19,8%	3 754 023	20,3%
CHF	11 538 547	62,4%	11 629 234	63,1%
USD	5 673	0,0%	5 572	0,0%
Total	**17 156 504**	**92,8%**	**17 097 285**	**92,7%**
Micro customers				
PLN	832 755	4,5%	787 747	4,3%
EUR	84 461	0,5%	95 002	0,5%
CHF	407 544	2,2%	454 018	2,5%
Total	**1 324 760**	**7,2%**	**1 336 767**	**7,3%**
Total				
PLN	2 787 669	15,1%	2 496 204	13,5%
EUR	3 741 829	20,2%	3 849 025	20,9%
CHF	11 946 091	64,6%	12 083 252	65,6%

The table presents only retail loans (individual customers and micro customers) and mortgage products (loans arising from the restructuring and consolidation among mortgages have not been presented in the table above).

As at 31 December 2016 the impairment allowance on mortgage loans in CHF for infividual customers amounted to PLN 131 748 thousand and decreased by PLN 10 176 thousand compared to the end of the year 2015.

Average LTV on mortgage loans for individual clients denominated in foreign currencies amounted to 126.1% as at 31 December 2016 (as at 31 December 2015 amounted to 125.69%).

The below table presents quality of gross mortgage loans portfolio granted to individual clients by past due days (DPD) as at 31 December 2016.

Risk management (cont.)

Loans for individual and micro customers secured by mortgage by dpd (in PLN thous)		Past due (DPD)			
Currency	not overdue	<1 - 90>	<91 - 180>	above 180	Total
		Individual customers			
PLN	1 350 967	85 572	9 699	508 677	1 954 915
EUR	3 504 059	136 124	11 851	5 335	3 657 369
CHF	10 241 538	1 125 099	62 594	109 316	11 538 547
USD	5 673	0	0	0	5 673
Total	**15 102 237**	**1 346 795**	**84 144**	**623 328**	**17 156 504**
		Micro customers			
PLN	558 052	23 062	3 097	248 544	832 755
EUR	79 006	4 931	219	305	84 461
CHF	362 355	36 743	5 040	3 406	407 544
Total	**999 413**	**64 736**	**8 356**	**252 255**	**1 324 760**
		Total			
PLN	1 909 017	108 634	12 796	757 222	2 787 669
EUR	3 583 062	141 055	12 071	5 641	3 741 829
CHF	10 603 892	1 161 842	67 634	112 723	11 946 091
USD	5 673	0	0	0	5 673
Total	**16 101 644**	**1 411 531**	**92 501**	**875 586**	**18 481 262**

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. The analysis of the draft impact on the financial statements of the Bank could not be finalized at the moment of publication of these financial statements due to the significant differences in draft projects submitted for processing by the Parliament and being developed by the supervisory authorities.

Exposures from Renewable Energy Sources segment

Due to changing legal environment and changes in legislative process, in particular:

- changes in acts regulating Renewable Energy Sources (RES) market,
- amendment of regulations relating to installation of RES, i.e. Act on Investments in Wind farms (called distance act) dated 20 May 2016,

there were changes, which have direct impact on the RES market, including Wind farms market. Negative impact on the RES market has also temporary oversupply of Green certificates and its consequences.

According to the Bank's policy, the Bank does not finance new projects from Wind farms segment, and existing Bank's exposure is under constant monitoring and credit reviews on quarterly basis, including detailed analysis of cash flows. All exposures from Wind farms segment are in the repayments period and are financed as a part of project finance. Bank's exposure to the Wind farms is decreasing in the following months. The above described strategy will be continued.

Risk management (cont.)

In calculation of impairment on Renewable Energy portfolio, Bank prepares scenario estimations taking into account expected developments in prices of green certificates in the future. Bank takes into account scenarios with highest probabilities assigned and calculates both scenarios where the market price significantly increases above current market values of green certificates and scenarios where market price, according to experts judgments, decreases significantly in the future, i.e. the financing period.

43. Liquidity risk

The main purpose of the liquidity risk management process is to develop a structure of Bank's balance sheet that allows 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.

In order to ensure a safe liquidity profile, the Bank defined in the Risk management strategy, approved by the Supervisory Board, the main indicators, which the Bank intends to maintain on the appropriate levels, among others:

- The excess of the accumulated adjusted liquidity gap, constructed in accordance with the applicable Bank's methodology in all maturity tenors,
- In the short horizon possessing a surplus of inflows over outflows in a defined internal crisis scenario, which includes both the financial markets crisis and Bank's reputational crisis,
- Holding of the internally defined buffers above the minimum levels of all supervisory liquidity ratios relating to the Bank.

The managing of current and inter-day liquidity of Bank is performed by Liquidity Management Team. The level of mid-term and long-term liquidity risk incurred by the Bank is assessed based on liquidity reports and the Department of Assets and Liabilities is responsible for operational management of this risk.

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, necessity to maintenance of required balance of the mandatory reserve and adjustment of

Risk management (cont.)

receivables due to identified impairment).

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 and also prognosis of the regulatory ratios in horizon of a few months. The level of LCR ratio is also subject to calculation and limitation.

In the annual stress tests the Bank analyzes the potential liquidity threats in crisis situation by examining them for their potential severity and the probability of their occurrence. As a part of this process The Central Crisis Scenario is defined, the result of which is then tested on a daily basis and not meeting its conditions may be a background to start the emergency plan. This scenario assumes the simultaneous occurrence of the financial markets crisis and reputational crisis, resulting in, among others, respectively on increased outflow of deposits depending on the category, the negative impact of exchange rates reflected in the necessity to increase the balance of collateral accounts for settlement of derivative transactions, no possibility to obtain funds from the interbank market or immediate outflow of deposits of high concentration risk. In such defined scenario the Bank assumes the possibility of undisturbed operations in the horizon of a minimum of 30 days without having to take additional action.

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.

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 balance sheet, is another tool used to manage liquidity risk.

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

Risk management (cont.)

31 December 2016 Type of liability	Nominal amount	Carrying amount	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	**1 422 175**	**1 546 175**	**266 961**	**147 254**	**590 338**	**7 899**	**1 012 452**
inflows	25 708 330	-	13 554 027	3 091 540	9 413 096	375 199	26 433 862
outflows	27 130 505	-	13 820 988	3 238 795	10 003 434	383 098	27 446 315
Financial liabilities	**45 032 600**	**45 046 427**	**35 001 410**	**5 164 379**	**5 575 265**	**283 597**	**46 024 651**
Amounts due to banks and other monetary institutions	7 426 757	7 433 406	304 025	2 293 250	5 344 063	0	7 941 338
including received loans	7 094 115	7 099 171	0	2 254 237	5 331 004	0	7 585 241
Amounts due to customers	36 356 751	36 361 807	34 330 304	2 345 517	63 505	340	36 739 666
Subordinated liabilities	331 804	332 096	3 373	10 120	146 119	251 197	410 809
Liabilities from issuance of debt securities	500 000	501 830	7 775	507 775	0	0	515 550
Other financial liabilities	417 288	417 288	355 933	7 717	21 578	32 060	417 288
Guarantee liabilities granted	**1 928 262**	**-**	**0**	**1 928 262**	**0**	**0**	**1 928 262**
Financial liabilities granted	**7 136 072**	**-**	**0**	**3 402 756**	**3 733 316**	**0**	**7 136 072**

31 December 2015 Type of liability	Nominal amount	Carrying amount	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	**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**

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

	within 1 month	up to 1 - 3 months	up to 3 - 12 months	up to 1 - 2 years	up to 2 - 3 years	up to 5 years	up to 20 years
31 December 201(	-11 678 432	-17 304 521	-19 009 829	-20 698 944	-18 138 933	-11 826 321	971 460
31 December 201!	-4 723 038	-11 852 254	-17 030 258	-17 763 966	-16 853 546	-12 404 635	10 148

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

Risk management (cont.)

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.

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 an acceptable level.

For the purposes of currency risk management, the Bank has developed a system of market risk levels. As

Risk management (cont.)

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 3 133 thousand. The Bank uses simulation methods in the management process, utilizing value at risk (VaR) method in calculation of currency risk exposure.

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	31 December 2016				31 December 2015
	Min.	Max.	Average	As at 31 December 2016	As at 31 December 2015
Currency risk	11	663	80	84	221

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.

Risk management (cont.)

As at 31 December 2016 and 31 December 2015 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):

31 December 2016	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	-47 367	-47 314	-47 421	54	-54
USD	5 956	5 949	5 963	-7	7
CHF	-8 190	-8 180	-8 200	10	-10
Total				**57**	**-57**

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**

Assuming that exchange rates fall at the same time by 50 base points, the Bank's result for the year 2016 due to open the currency position would increase by PLN 57 thousand, while with an increase in exchange rate by 50 base points the Bank's result would decrease by PLN 57 thousand.

As at 31 December 2016, Bank's net short currency position amounted to PLN 55 558 thousand, which constituted 0.90% of Bank's own funds (31 December 2015 net long currency position of the Bank amounted to PLN 49 956 thousand, which was equal to 0.87 % of Bank's own funds). The following table presents the Bank's balance sheet and off-balance items by currency.

Assets, liabilities and off-balance items in foreign currencies and the Bank's foreign exchange position					
31 December 2016	**EUR**	**USD**	**CHF**	**Other**	**Total**
Balance sheet components of foreign exchange position – assets	8 196 124	517 692	12 174 196	215 508	21 103 520
Balance sheet components of foreign exchange position – liabilities	8 611 992	1 776 804	4 422 048	397 563	15 208 407
Off-balance components of foreign exchange position – amounts receivable	10 850 430	9 618 640	824 926	613 002	21 906 998
Off-balance components of foreign exchange position – amounts payable	10 481 929	8 353 572	8 585 263	428 776	27 849 541
Net long foreign exchange position (+)	**-**	**5 956**	**-**	**2 171**	**8 127**
Net short foreign exchange position (-)	**47 367**	**-**	**8 190**	**-**	**55 558**

Risk management (cont.)

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

For period covered by these financial statements there were no significant changes in currency risk management.

44.3. Interest rate risk for cash flows and fair value

Interest rate risk results 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 structuring of balance sheet, so that the 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 within 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 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

Risk management (cont.)

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.

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.

	31 December 2016				31 December 2015			
	Min.	Max.	Average	As at 31 December	Min.	Max.	Average	As at 31 December
Bank book								
<1Y	0	374	97	34	0	458	308	300
1 – 3Y	1	232	102	56	0	81	14	13
>3Y	17	30	24	27	0	84	9	17
Trading book								
<1Y	0	31	10	2	0	92	23	12
1 – 3Y	0	65	13	7	1	129	40	55
>3Y	0	81	28	16	0	101	35	29

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 using the value at risk, in accordance with the model parameters defined in the system of limits and described above.

	31 December 2016				31 December 2015
	Min.	Max.	Average	As at 31 December	As at 31 December
Bank book	1 160	7 500	6 158	6 238	4 849
Trading book	177	1 388	541	474	293

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 2016 showed the impact on interest result of PLN 150 975 thousand, which is 2.5% of the own funds of the Bank included in the calculation of the capital adequacy ratio compared to PLN 169 059 thousand for the end of 2015 year, representing 2.8% 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 "Assets" and "Liabilities".

Risk management (cont.)

The Bank's exposure to interest rate risk									
31 December 2016	**Non-interest bearing**	**1M**	**3M**	**6M**	**12M**	**2Y**	**5Y**	**>5Y**	**Total**
Assets									
Cash and balances with the Central Bank	667 808	1 064 061	0	0	0	0	0	0	**1 731 869**
Amounts due from banks	0	315 252	0	0	0	0	0	0	**315 252**
Financial assets held for trading	0	7 665 025	6 494	266 986	632	106 076	2 072	57	**8 047 342**
Derivative financial instruments	466 720	0	0	0	0	0	0	0	**466 720**
Investment securities	45 540	5 979 963	26 331	1 896 120	0	0	0	0	**7 947 954**
Loans and receivables granted to customers	0	12 765 496	18 726 103	2 051 677	177 650	11 548	135 531	0	**33 868 005**
Other financial assets	177 596	0	0	0	0	0	0	0	**177 596**
Liabilities									
Amounts due to banks and other monetary institutions	0	3 302 165	4 120 809	0	0	0	10 432	0	**7 433 406**
Derivative financial instruments	1 546 175	0	0	0	0	0	0	0	**1 546 175**
Amounts due to customers	0	14 911 526	14 496 966	3 880 318	2 528 967	535 323	8 367	340	**36 361 807**
Subordinated liabilities	0	0	332 096	0	0	0	0	0	**332 096**
Liabilities from issuance on debt securities	0	0	0	501 830	0	0	0	0	**501 830**
Other financial liabilities	417 288	0	0	0	0	0	0	0	**417 288**
Off-balance-sheet items									
Guarantee liabilities granted	1 928 262	0	0	0	0	0	0	0	**1 928 262**
Financial liabilities granted	7 136 072	0	0	0	0	0	0	0	**7 136 072**

Risk management (cont.)

The Bank's exposure to interest rate risk									
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 receivables granted 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 – current	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**
Off-balance-sheet items									
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.)

44.4. Operational risk

Operational risk is defined as the risk of incurring a loss due to ill-adjusted 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 the 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.